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GROWING COMPANIES

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1990 EXECUTIVE-COMPENSATION SURVEY

# THE TAKE AT THE TOP

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FOUNDER AND CEO OF
METROPOLITAN OUTDOOR
ADVERTISING CORP.

**PLUS:**

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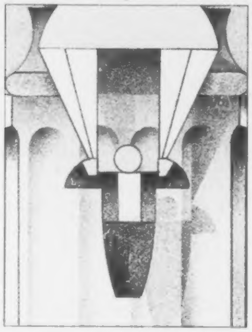

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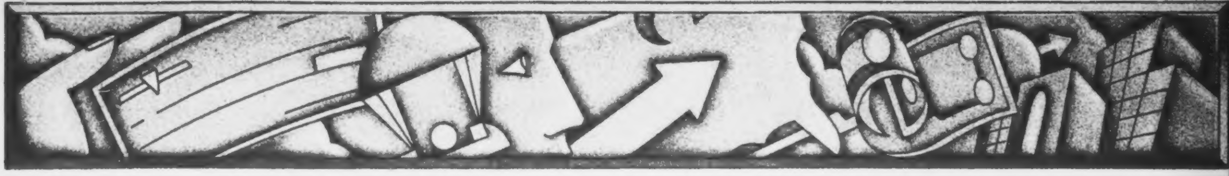


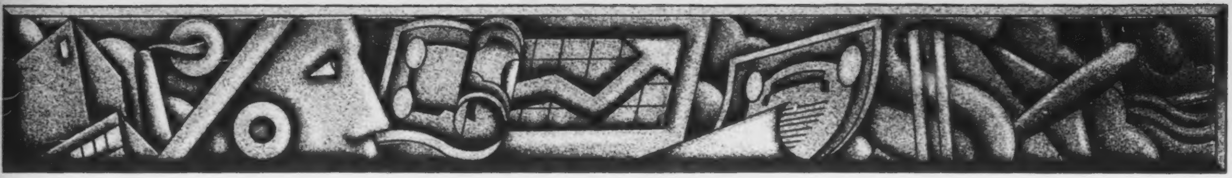
INC.'S 1990 EXECUTIVE-COMPENSATION SURVEY

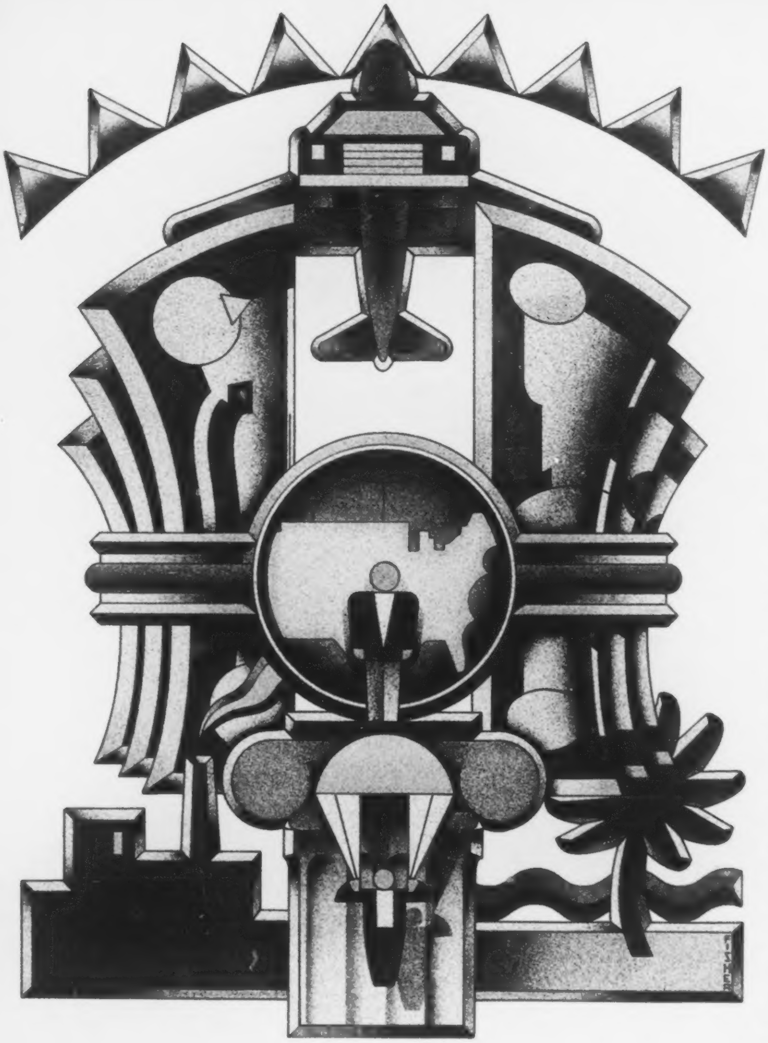
# MISSED OPPORTUNITIES

**Small companies may claim they treat their people better, but when it comes to designing compensation packages, the real story this year is one missed opportunity after another**

All too many of the companies that participated in this year's executive-compensation survey are competing in the job market with executive-compensation packages that are pale imitations of those offered by large corporations. It's a real problem. Those companies, which have sales averaging about $5.2 million and are otherwise quite shrewd when it comes to such financial matters as building sales or boosting profit margins, are passing up fabulous compensation alternatives, many of them subsidized by Uncle Sam in the form of valuable tax deductions. Fifty-six percent of respondents reported that their payroll costs had placed an increasingly large burden on operating expenses during the past two years. But instead of looking for ways to reduce that burden through noncash compensation and tax-advantage benefits, they continued to focus on salary and bonus as the keys to recruiting executives. That's a dangerous game, since it pits fast-growing companies that are often strapped for capital against larger, better-heeled competitors. A quick look at the survey results shows an unfortunate tendency toward

***BY JILL ANDRESKY FRASER***





quick-gratification, cash-intensive benefits. Sixty-one percent of the survey respondents gave their chief manufacturing officers a company car—and even more did likewise for their chief operating officers and chief sales officers. But only 19% gave their manufacturing executives the opportunity to delay taxes and save for retirement through any form of deferred compensation. And a paltry 5% opted for such incentives as phantom stock or restricted stock for their executives.

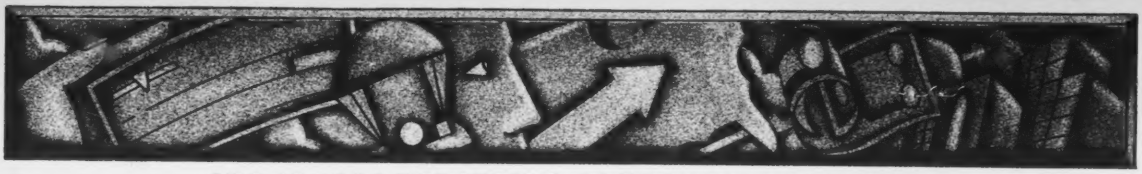
And the beat goes on. Seventy-nine percent or more relied on cash bonuses to retain top operating, manufacturing, financial, sales, and marketing executives, despite the fact that bonuses drain working capital and as outright gifts do nothing to tie valuable people to companies over the long term. Meanwhile, just 35% used profit-sharing plans, which can be combined with vesting programs to reduce executives' tax bills and virtually guarantee executive longevity.

What's the problem? In large part it's that many compensation and benefits strategies are simply more complex than straight cash rewards are. Anita Carlson, president and CEO of Five-O Advertising Inc., a $1-million Portland, Ore., business, is a good example of a company owner who is frustrated by the difficulties involved in setting up a creative benefits program. She plans to retire in eight years and has been trying to figure out a way to prepare her executives to buy out the business then, perhaps through an employee stock purchase plan (a benefit offered by only 6% of the companies surveyed). So far she hasn't been able to settle on a strategy that will meet her needs. "I've been reading books and talking to consultants, but everything's geared to large corporations," says Carlson. "Nothing really seems right for our size company at our stage of development."

Many complain about bad experiences with overpriced, underproductive consultants. "We paid a consultant $24,000 to do a compensation study and wound up learning less than we already knew from reading the want ads in our Sunday newspaper," says George Hatfield, CEO of $35-million Hatfield & Co., of Mesquite, Tex., which distributes instrumentation, piping specialties, and filtration systems.

No wonder so many owner-managers of growing companies believe they must develop their own executive-compensation strategies. William Reidy is chairman and CEO of Fine Organics Corp., an $8.2-million specialty-chemical manufacturer located in Lodi, N.J., one of the 2% of businesses surveyed that offer phantom stock to executives. (Phantom stock is a contractual promise to pay key

ILLUSTRATIONS: MARK FISHER



employees a sum equal to the rise in value of a hypothetical amount of company stock, usually over a specified time period.) "We had to reinvent the wheel when we set it up," he recalls. "We had a plan from a consultant that was so convoluted we wound up taking the concept and developing our own simplified version."

The trouble is that if entrepreneurs are forced to come up with their own executive-compensation strategies, they often wind up drawing on what they already know—rather than using some of the state-of-the-art strategies that can actually be tailored to their own particular needs. Sometimes that can produce exciting results, but more often than not CEOs remain either dissatisfied with what they've done or uncertain about what to try next.

"I wanted to treat my employees like owners and have them make decisions as if this were their own company, so I set up a phantom stock program," confides Larry Baum, president and chief executive of $2-million Computing Center, of Ithaca, N.Y. "But every member of my experimental group left, including the chief operating officer and the vice-president of sales. Maybe it was the wrong idea. Maybe it was the wrong people. I'm back to square one."

George Hatfield's greatest frustration is the tremendous limits he sees in finding ways to keep himself, his partner, and other key executives happy on the compensation front. "The federal government has eliminated everything besides the 401(k) plan, and look how much they've cut back on that," he complains. "Being able to put away $7,000 or so a year in retirement savings just doesn't add up to much for me or my executives. And there simply aren't any other options."

The good news is, Hatfield is wrong. There are plenty of cost-effective ways to keep executives loyal and productive over the long term—in many cases while producing bottom-line benefits. (See box, "The Executive-Compensation Strategist," below.)

The bad news is, it takes some self-education, on the part of CEOs and their management teams, to learn about the universe of compensation options. But with 75% of the companies surveyed this year confident that their sales will rise during the course of the year—and nearly as many (66%) projecting that their profits will increase—there has never been a better time to start. ❑

*Research assistance was provided by Anne Murphy.*

## THE EXECUTIVE-COMPENSATION STRATEGIST

### Six opportunities you may be missing out on

There are plenty of cost-effective ways to keep executives loyal and productive over the long term. Some you should consider:

■ **401(k)s.** These plans allow employees to defer part of their salaries and make withdrawals at age $59^{1}/_{2}$ without penalty, thereby earning current tax deductions and tax-deferred interest on retirement savings. There are ways to enhance 401(k) options: Robert Funk of Express Services Temporary & Permanent Personnel, in Oklahoma City, set up a two-tier 401(k) plan that's open to all employees but provides corporate matching funds to department managers and directors at a higher percentage.

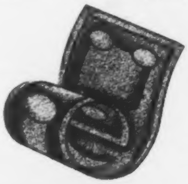
■ **Phantom stock.** For owners who want to share the rewards of their companies' growth without creating a class of minority shareholders, here's an alternative. Phantom stock mimics the performance of real stock, since there is a contractual agreement for the company to pay key employees at specified intervals for any increases in the company's market value. Employees often prefer this to outright stock gifts, because there's no income-tax liability when the phantom stock contract is signed. Employees are taxed only when payments occur.

■ **Restricted stock awards.** If your executives want to own stock, this is a way to minimize your company's risks. Restricted stock awards come with plenty of strings attached. Executives gain full ownership after a vesting period and can sell their shares back to the company only at specified intervals.

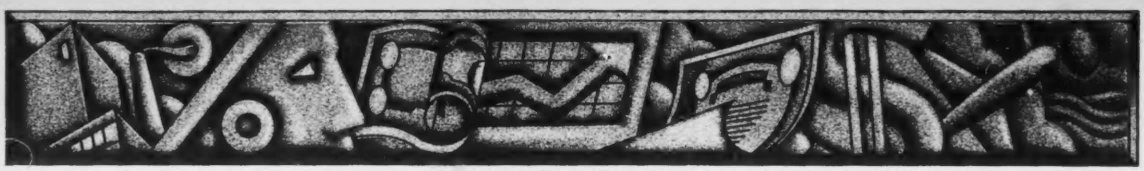
■ **Incentive stock options.** Under the right conditions—such as in a company that plans to go public—ISOs are a good incentive. They give executives the right to buy stock at a discounted price at some specified future date. The executives expect that ultimately they will be able to sell their shares at a profit.

■ **Secular trusts.** A secular trust provides one way to hold payments in a deferred-compensation plan. Companies can use secular trusts to set aside large sums for their executives' future needs and ideally tie executives to them over the long term. The trusts provide companies with an immediate tax deduction, but executives must pay current taxes on the money that goes into the trusts, which is certainly a disadvantage from their standpoint. But for people working for cash-strapped businesses, there's an advantage: since secular trust funds are segregated from working capital, employees' deferred compensation is secure.

■ **Rabbi trusts.** If your company doesn't need an immediate tax deduction, these provide a vehicle for setting deferred-compensation funds aside so executives pay taxes only when funds are distributed—at which point the company finally gets to record its tax deduction.



*EXECUTIVE-COMPENSATION SURVEY (continued)*



INC.'S 1990 EXECUTIVE-COMPENSATION SURVEY

# THE SURVEY

## THE COMPANY

A profile of the typical company

| | |
|---|---|
| **Total sales (FY 1989)** | $5,235,380 |
| **Sales growth (FYs 1988–89)** | 10% |
| **Number of employees (FY 1989)** | 66 |
| **1989 payroll** | $1,380,630 |
| **Payroll as a percentage of sales** | 31% |
| **Sales per employee** | $136,870 |
| **Percentage of companies surveyed that are privately owned** | 97% |

## THE CEO: A profile of the typical chief executive officer

| | |
|---|---|
| **Total compensation** | $100,984 |
| **Base salary** | $79,854 |
| **Bonus*** | $40,300 |
| **Equity held†** | 68% |

## COMPANY-WIDE BENEFITS

| **INSURANCE BENEFITS Type of insurance** | **% of companies offering group insurance** | **Average % paid by company** |
|---|---|---|
| **Life** | 66% | 92% |
| **Medical** | 84 | 88 |
| **Dental** | 41 | 83 |
| **Short-term disability** | 36 | 91 |
| **Long-term disability** | 33 | 87 |

| **RETIREMENT BENEFITS Type of retirement benefit** | **% of companies offering it** |
|---|---|
| **Profit sharing** | 35% |
| **Thrift/savings plan** | 9 |
| **Defined benefit trust** | 9 |
| **401(k)** | 21 |
| **Employee stock purchase plan** | 6 |
| **Other** | 7 |

## EXECUTIVE BENEFITS AND PERKS

| | **CEO** | **COO** | **CFO** | **CSO**** |
|---|---|---|---|---|
| **Company car** | 77% | 69% | 52% | 70% |
| **Supplemental life insurance** | 54 | 49 | 45 | 41 |
| **Tax-return preparation** | 46 | 32 | 24 | 18 |
| **Supplemental medical insurance** | 34 | 32 | 31 | 30 |
| **Personal-tax & financial planning** | 28 | 14 | 15 | 12 |
| **Low- or no-interest loans** | 17 | 14 | 14 | 12 |
| **Deferred compensation** | 15 | 13 | 16 | 15 |
| **Supplemental retirement benefits** | 13 | 12 | 12 | 12 |
| **First-class air travel** | 9 | 6 | 5 | 4 |
| **Relocation allowance** | 5 | 6 | 8 | 8 |
| **Golden parachute** | 3 | 5 | 5 | 3 |

* 85% of CEOs surveyed receive a bonus; † 97% of CEOs surveyed have equity; ** chief sales officer

## AVERAGE TOTAL PAY BY REGION

| | **CEO** | **COO** | **CFO** | **CSO** |
|---|---|---|---|---|
| **Northeast** | $99,880 | $71,022 | $65,508 | $76,029 |
| **Southeast** | 101,096 | 66,323 | 59,221 | 64,849 |
| **Midwest** | 99,309 | 73,177 | 51,531 | 64,632 |
| **Southwest** | 106,504 | 96,673 | 52,660 | 60,906 |
| **West Coast** | 101,484 | 95,397 | 66,364 | 57,983 |
| **TOTAL U.S.** | 100,984 | 78,667 | 59,144 | 65,030 |

## AVERAGE TOTAL PAY BY INDUSTRY

| | **CEO** | **COO** | **CFO** | **CSO** |
|---|---|---|---|---|
| **Construction** | $113,777 | $88,656 | $47,045 | $55,264 |
| **Distribution** | 98,747 | 71,456 | 53,576 | 76,676 |
| **Manufacturing** | 121,757 | 88,251 | 58,995 | 72,087 |
| **Retail** | 89,160 | 63,291 | 47,030 | 42,059 |
| **Service** | 89,700 | 72,255 | 62,465 | 58,976 |

## AVERAGE TOTAL PAY BY COMPANY SIZE

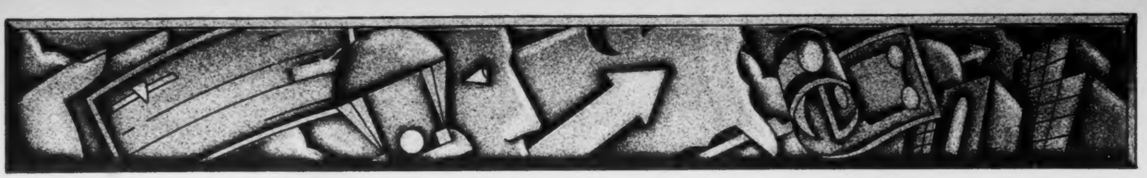
| **Size (in terms of sales)** | **CEO** | **COO** | **CFO** | **CSO** |
|---|---|---|---|---|
| **$10 million or more** | $194,089 | $126,569 | $82,549 | $85,824 |
| **$5 million to $9.99 million** | 137,942 | 76,108 | 53,201 | 70,877 |
| **$1 million to $4.99 million** | 107,461 | 78,595 | 50,283 | 63,838 |
| **Less than $1 million** | 56,385 | 43,733 | 40,759 | 33,030 |

## HOW THE STUDY WAS CONDUCTED

The 1990 Executive-Compensation Study was conducted jointly by INC. and Coopers & Lybrand. In June we mailed a four-page questionnaire to 21,500 subscribers. The 823 responses were tabulated by Harrison & Goldberg, a consulting and opinion-research firm in Cambridge, Mass.

The survey was conducted under the direction of INC. special projects editor Sara Baer-Sinnott. Michael Lew, partner and regional director of compensation consulting at Coopers & Lybrand, and David Darrow, a Coopers & Lybrand compensation consultant, provided technical assistance in developing the questionnaire. A special report containing the complete results of the survey is available. The report—while preserving the confidentiality of the survey responses—provides more detailed information than we have space to publish. To obtain a copy, fill out the postpaid card bound in this issue or send a written request and a check for $98 ($95, plus $3 shipping and handling) to 1990 Executive-Compensation Study, P.O. Box 1365, Wilkes-Barre PA 18703, or call (800) 372-0018, extension 10.

*EXECUTIVE-COMPENSATION SURVEY (continued)*



EXECUTIVE COMPENSATION: THE CASE STUDY

Jeffrey Banks's company is living proof that innovative compensation strategies aren't just for the *Fortune* 500

# STATE OF THE ART

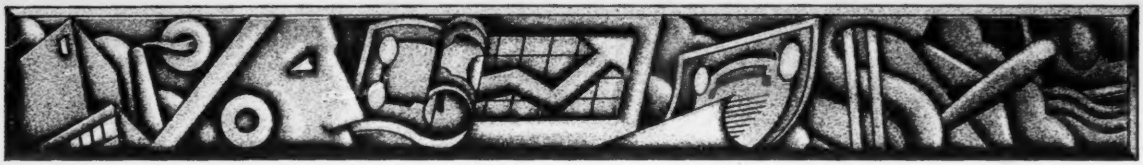
Many owners of fast-growing companies complain that they don't have the time or the money to put together a comprehensive executive-compensation plan. Jeffrey Banks knows otherwise. The 44-year-old founder and chief executive of Metropolitan Outdoor Advertising Corp., one of the country's largest billboard advertising firms, built a $30-million company using one management principle. "I wanted to run a business that was responsible to my employees as well as my shareholders," he says.

In an industry in which competition for both billboard locations and customers is fierce, Banks needs to be able to recruit and retain top marketing and management talent. He founded Metropolitan 12 years ago with $500,000 in profits from a small billboard company he had owned and sold.

At first Banks and his wife, Karen, were Metropolitan's sole employees, but from the time his first billboard on the San Francisco Bay Bridge netted him Qantas Airways as a client, he used cash flow to finance some additional leases and hire a small sales force. Thanks to the couple's good eye for properties and tight fist when it came to controlling operating expenses, the company was

*BY JILL ANDRESKY FRASER*

PHOTOGRAPHS: TOM ZIMBEROFF



*Jeffrey Banks, founder of Metropolitan Outdoor Advertising Corp.*
**He wanted to share his success with his employees.**

in the black by the end of its first year. Then Karen, a former banker, negotiated a line of credit that helped finance the acquisition of a tiny company whose chief assets were some undervalued billboards with high-glitz potential. But, says Jeffrey Banks, "I knew if I wanted to hold on to the people I was hiring, I would have to share the benefits of my success with them."

So Banks, a former middle linebacker with the Cincinnati Bengals and the New York Jets, read up on executive compensation. Quickly he realized that the best executive-compensation plans operated like jigsaw puzzles, with various pieces that could be divvied up among the key players in a company. Some pieces could be designed according to an individual executive's—or the owner's—needs; others could be shared among all employees. As companies grew larger and more profitable, additional pieces could be added to the puzzle. And as long as the overall plan was well designed, pieces could be subtracted during capital-intensive or difficult business phases.

The first piece of Metropolitan's executive-compensation puzzle was a profit-sharing plan Banks instituted in 1980 for the company's 12 employees, including himself and his wife. It was a particularly golden year for Metropolitan, and Banks realized the company was generating more cash flow than it needed to support the next year's growth plan. So he allocated a share of profits to each employee, based on his or her salary. The funds were deposited in a retirement account in each employee's name.

Flexibility was the byword of that early plan: Banks made no guarantees about the level or even the frequency of contributions. But he made contributions during 7 of the next 11 years, and as the staff grew he also maintained his original goal of keeping what is often used solely as an executive benefit as a company-wide program.

The question arose of what to do with all those dollars once they were segregated into the individual retirement plans. Banks wanted his employees' retirement money to be managed conservatively and profitably, so he brought in Steve Adams, a managing director at Van Kasper & Co., a regional brokerage firm in San Francisco, to direct an investment program that divides assets 50-50 between growth-oriented stocks and bonds. The program has averaged a 13.5% annual rate of return.

*Karen Banks*

By the mid-1980s Banks felt he had to come up with other ways of binding his top employees to the company. Metropolitan had expanded into billboard markets in southern California, Texas, Idaho, and elsewhere, which meant he needed to rely on his regional managers for much of the company's site selection, marketing development, and day-to-day office supervision.

So in 1985 he divided his company into seven corporations, drawn up according to regional markets, with stock that was wholly owned by his holding company, Metropolitan Outdoor Advertising. That gave Banks the stock of eight companies (including the holding company) to play with when he devised incentive packages that would motivate his key employees.

The next year he brought in a new regional manager with an incentive package that included the potential to earn a stake of up to 5% in his local division. Eventually three other regional managers came on board with the same plan. But while it was appealing as a way of locking each executive's financial future in to his division's growth and profitability, the method had its drawbacks. "As the divisions kept growing, it became increasingly difficult to keep tracking the different stocks' values," says Banks. He remained convinced about the benefits of stock ownership as a way to motivate managers, but he was willing to consider alternative incentive methods.

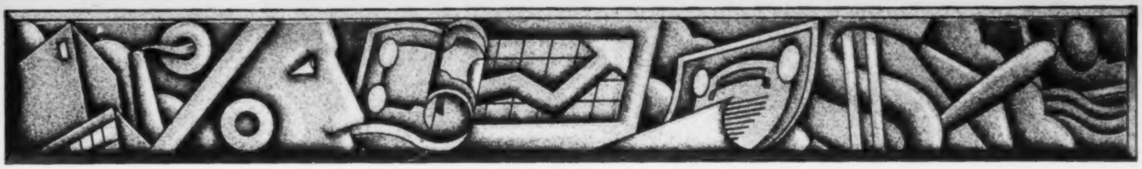
Banks investigated a phantom stock plan. "At first I didn't get it," he says. "If executives didn't actually receive stock, where were the benefits and performance incentives?" But he was willing to give it a try. After all, his employees would be able to earn the same capital-gains profits (as long as the company's market value kept rising) that they would have gotten from true stock ownership. But because no shares of stock changed hands, there would be no tax bill for employees until the phantom stock payouts occurred.

The new plan was a success. "One type of phantom stock is so much easier to administer than the stock of seven divisions," Banks says, "and it still works great as a way to motivate executives."

But Banks didn't stop there. He set up a pool containing 8% of his holding company's stock, to be awarded on a discretionary basis to Metropolitan's most valuable executives and regional managers. "I'll always maintain majority control of our board, but this is another way of tying our top performers to the company's future," he says. So far, he has distributed just under half of the pool's stock.

For all of Banks's best intentions, executive compensation has occasionally taken a hit at Metropolitan. The most recent dates back to last year's $27-million acquisition of a billboard firm, which was financed primarily through bank loans. "We've got covenants tied to our current leverage that will make it difficult for us to do very much in the way of executive compensation for the next 18 to 24 months," he acknowledges.

The profit-sharing plan is bearing the brunt of that. Banks doesn't anticipate being able to make any new contributions in the near future. The money in the retirement plan continues to grow, however. Most Metropolitan executives also continue to build long-term rewards through the performance of their phantom stock *(continued)*



shares, whose value is tied to the company's overall performance.

Executives and other employees also receive annual cash bonuses, set at levels appropriate for the current austerity. Banks doesn't, however. "The way our bonuses are set up, I don't receive anything till we hit our top numbers—which we haven't made yet."

Banks has found a way to improve his employees' compensation despite his current financial restrictions. Last year he created a 401(k) plan that he merged with a 401(k) that already existed at one of the companies he had recently acquired. The plan's low administrative cost made it simple for Metropolitan's bankers to live with, just as long as Banks promised not to match employee contributions until he met his various operating goals. Twenty-five percent of his employees joined—not bad for the first year—and now defer about $2,000 worth of salary each month.

What's the payoff from all the personal attention to compensation matters? A work force that, in Banks's eyes, "understands that we're all a family working toward a common goal, toward rewards we're all going to share." That may sound like California dreaming. But Metropolitan's record of success is pure reality. ❑

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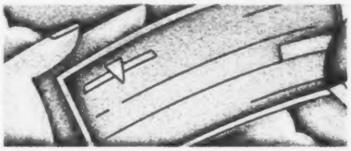
# THE TAKE AT THE TOP

## How CEOs set their own compensation

If there are no easy answers in executive compensation, that's particularly true when company owners have to decide how much to take out of their businesses for themselves, and when. Take out too much too soon and they risk crippling their growing businesses; yet if they fail to diversify their finances beyond the business as soon as that's feasible, they risk sacrificing their family's financial future to the company. What's a CEO to do?

"Since there's no real formula to rely on, it's a matter of conscience," says Joe Schulman, president of Sentry Chemical Co., an Atlanta manufacturer of cleaning compounds with annual sales of about $7 million. "I develop a number based on my productivity and the company's profitability, and then ask myself what people in my shop would say if they knew what I earned." Among the companies surveyed, the average base salary for CEOs was nearly $80,000. The bigger the company, the likelier it was that the chief executive took home a good bit more: CEOs at companies with sales of $1 million to $4.9 million had an average total compensation of $107,461; when sales topped $10 million, the CEO's total pay averaged a much more generous $194,089.

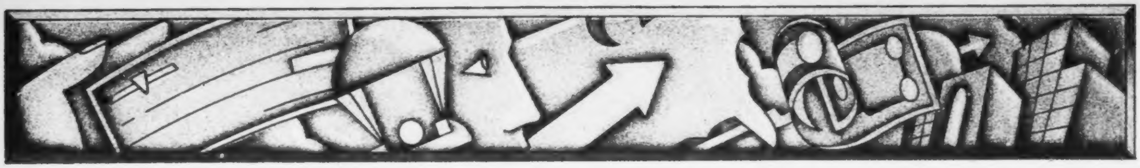


Those numbers sound positively utopian to many struggling business owners who continue to make financial sacrifices long after their companies pass beyond the initial, precarious phase of operations. "We live moderately and have few financial needs," says Gregory Turner, whose Saginaw, Mich., business, Turner Business Forms Inc., is eight years old. Although his revenues top $1 million annually, Turner still takes home a salary that's a small fraction of the survey average. "I'm not one for the yachts and big cars. I tell my wife the equity we're building for ourselves in the business is the big thing."

Generally speaking, it's more the size of one's ambitions than the size of one's company that determines how much an owner takes out of the business. "I'm 41, and I have virtually no assets outside of this company," admits Mike Slataper, whose Mansfield, Tex., construction business, Ramtech Modular Design Inc., has grown to $12.8 million in sales. "That's because I have goals that go far beyond our being a $15-million company. And you're not going to grow like that if you're raping your business of its capital." Nor are you going to survive hard times and achieve those larger ambitions, most CEOs agree, if you're not willing to cut your own compensation when it's in the company's best interests. "In hard times, I've cut my salary down to grocery money," says A. J. Adolph, whose Automotive Casualty Insurance Co., in Kenner, La., now boasts double-digit profit margins and $50 million in sales. "Hell, I've sold my car when times were bad."

Not surprisingly, those kinds of sacrifices instill a zest for enjoying the good times when entrepreneurs think their businesses can finally support them. "For the first 20 years, I worked 18 hours a day, seven days a week, and didn't take a big salary because I was building up inventory, buying machinery, and accumulating retained earnings. But now my son and son-in-law can earn more than $240,000 a year and I earn far more than that," says Leonard Silverstein, founder of $5-million Terrace Paper Co., of Cicero, Ill. "If I were the head of General Motors, I'd have to answer to my shareholders. But I work for myself and my family. When I think I have enough money retained in the business, it's stupid not to take it out."

Most of the survey respondents are still committed to sharing the rewards of success with their top executives. Respondents paid an average of $65,497 in base salary and $19,749 in bonuses (when paid) to their COOs. Chief sales officers averaged $54,794 in salary and another $15,550 in bonuses for those who got them. In fact, quite a few CEOs were quicker to reward their executives than themselves. Robert A. Funk of Express Services Temporary & Permanent Personnel, in Oklahoma City, sounds almost wistful as he comments, "Our bonus system has always been one of our company's biggest strengths in attracting and retaining top people. And once the company finally reaches a certain level of profitability, my partner and I are definitely going to start taking bonuses ourselves."



EXECUTIVE COMPENSATION: Q&A

# HARD TIMES

## You've depended on profits to compensate and motivate employees. So what do you do when profits begin to evaporate?

**Successful growing companies often find a number of ways to share their success with employees. But what happens when a once-bustling business hits a downturn? How do you reward and motivate employees when you can no longer afford even slight increases in pay? And what's the best role for the CEO?**

**Certainly, that isn't an easy shift for either employees or managers. But in the view of Warren Blaisdell, the secret to keeping people motivated during lean times is plenty of communication. Blaisdell, 54, spent more than 20 years at the Norton Co., a manufacturer of abrasives and engineering materials based in Worcester, Mass., where he designed a variety of innovative systems for improving productivity in highly competitive businesses. For the past decade he has worked as an organizational consultant specializing in devising performance-based compensation packages; he's currently a senior consultant with William M. Mercer Inc., an international employee benefits and compensation firm with headquarters in New York City. Late last summer executive editor Nancy J. Lyons and senior writer Bruce G. Posner spoke with Blaisdell.**

*Warren Blaisdell, senior consultant at William M. Mercer Inc.*
**'In difficult times performance feedback for individuals becomes *more* critical.'**

**INC.:** Many of the companies we know build the lion's share of their nonsalaried compensation around profit sharing. The funding pool for those plans is profits, but in a slowdown that source is threatened. What sorts of problems does that create?

**BLAISDELL:** Well, it certainly presents some major disappointments to those who have grown accustomed to profit-sharing benefits. But if you stop to think about it, profit sharing by its very nature isn't guaranteed. It's built on risk, and inherent in that risk is the possibility that in some periods there won't be enough profit to enable a payout.

**INC.:** That may be, but do you think most people understand it that way? If the business has been growing and making money for five or six years, don't most employees expect those payouts to continue through thick and thin?

*(continued)*

PHOTOGRAPHS JON GOELL

**BLAISDELL:** They do, and the first time the payouts are cut or eliminated, there's a lot of disappointment and concern. To a degree, though, the reaction is going to be a function of how well the plan and the conditions for payout have been explained. If the plan has been well communicated, it won't be a total surprise when you're not able to pay. As the business runs into harder times, it will be obvious to employees that this period is different. Ideally, they're hearing about problems along the way.

**INC.:** Are you talking about posting financials on the bulletin board?

**BLAISDELL:** That's one way to do it, but it's not the only way. You can structure your goals according to how much detail you want to provide. In some cases, we've been able to set up targets and then measure performance in relation to them. You can say, "If we meet 80% of our target, then we will pay out *X*."

**INC.:** But why should employees believe they haven't reached the 80% level if they don't see the actual numbers?

**BLAISDELL:** Well, you need to establish credibility. Without a level of trust, you're going to have problems under any system. Successful plans, whether you share detailed financial results or not, are built on continual feedback. You can't wait until the end of the year to say, "Sorry folks, we didn't make it." One way or another, you need to find a way to give people regular information about how the business is doing, why it's doing well or not so well, what they can do to change or reinforce the outcome in the future. You want to find a vehicle for getting people more focused on the business.

**INC.:** Sounds as if you're advocating a lot of regular meetings. But most company owners aren't really inclined to talk much when the business is having trouble. And where would they find the time?

**BLAISDELL:** You really have to make time, even when other demands may seem greater. The most important time to communicate, to spend an hour or so with your employees, is when you're having problems. Memos don't do it. There's no substitute for hearing directly from the chief executive officer.

**INC.:** When profits are squeezed, companies look for all sorts of ways to cut back. They eliminate positions and freeze salaries. But how do you keep people from getting demoralized by these actions? Does it make sense to say, for instance, "We can't give you the raise now, but maybe in six months"? Or do you tell your employees to forget about it until next year?

**BLAISDELL:** I think you want to hold out the opportunity. If you've frozen employee salaries, you should be able to say, "Your performance warrants an increase, but because of our circumstances we can't pay it." There's nothing wrong with telling people you plan to review things in six months or whenever the situation changes.

**INC.:** Say you find you can't afford raises and you can't contribute to profit sharing. What do you do about performance reviews? Do you skip them or go ahead with them?

**BLAISDELL:** In difficult times I think performance feedback for individuals becomes *more* critical than it is in good times. When people are concerned about the business and about the future, the more you can tell them about how they're doing and how they can improve, the better they feel.

**INC.:** You've talked about the need for information, updates, and explaining the business and what needs to happen. What things should managers avoid doing in downturns?

**BLAISDELL:** What they shouldn't do is hunker down or clam up. People sense problems anyway, especially in small companies. They know what's going on, and the more you try to hide, the more susceptible the environment will be to rumors and misleading information. Without information, people will assume things are worse than they are. You don't create or remodel executive offices or buy expensive company cars. If pay cuts are occurring, make sure managers are feeling the impact, too. Certainly, you don't want to create a situation in which managers are benefiting from cutbacks. I've seen instances in which management bonuses were paid on the basis of work-force reductions. Let me tell you, it sends a pretty negative message.

**INC.:** Should managers be wary of investing in new products or new businesses when employees are being asked to suffer?

**BLAISDELL:** Quite the contrary. I think such actions can be viewed very positively as an attempt to turn the business around, that is, if they're adequately explained. Again, it goes back to communication. People want to know what you're doing, why you're doing it, where it might lead, and what it means to them. If the new ventures are intended, at least in part, to provide opportunities for your present employees, then they will want to hear that.

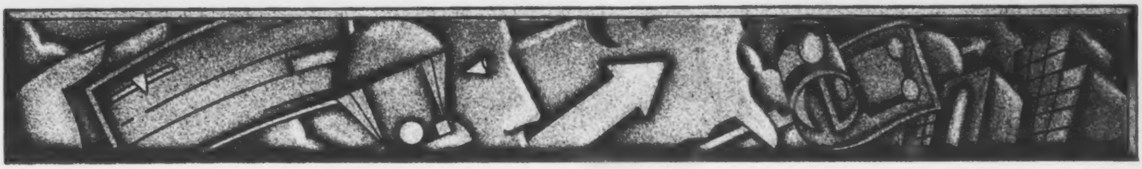
**INC.:** Say you can't justify any profit-sharing distributions based on your current performance but intend to reward people when performance improves. Can you create incentive plans that are driven by factors other than profit? How do you go about it?

**BLAISDELL:** Many companies design incentives that focus on specific operating areas where they think improvements are possible. Maybe capacity is constrained, and unless you find a way to increase productivity, you'll have to add more equipment or add on to the facility. Or maybe the amount of material you use is excessive; lowering waste would result in very tangible cost savings. If you focus on those choke points and make improvements, you can reward people accordingly.

**INC.:** There are obvious opportunities in manufacturing settings, but how might that apply to other kinds of businesses?

**BLAISDELL:** The approach lends itself to any business in which people work together to produce a tangible output. For example, in a financial-services organization or in the accounting department of

*(continued)*



any company, you may have thousands of transactions. Productivity, therefore, is critical. Incentives based on the volume of work or the quality of data entry would be an obvious thing to explore. You need to identify what's critical to the success of the business. I know of some younger companies that reward executives for meeting cash-flow goals. For them, that's the most important thing.

**INC.:** How quickly should you pull the plug when you find an incentive is having undesirable side effects?

**BLAISDELL:** My attitude is that you need to be willing to review, modify, and update anytime the business and the way you operate change. You might have new equipment, or you might have new products. If there's one thing we can say with certainty these days, it's that changes will continue to occur and will ultimately have an impact on your incentive plans. Even if you aren't aware of problems, every incentive plan should be reviewed annually. In fact, you may want to have sunset provisions in which plans automatically expire at the end of a year. Then you can see what you want to do for the coming period.

Remember, the whole idea here is to motivate people to change behavior and improve performance. If people aren't responding, you've got a problem. You need to figure out what's going on.

**INC.:** OK, say we're getting people to focus. Waste is down, results are looking better, but we're still losing money. Where do we find the money to pay the bonuses?

**BLAISDELL:** Well, payouts from some plans are driven by cost improvements—gains in productivity, quality, or whatever. You share the gains with the people who achieve it.

**INC.:** CEOs should dip into their pockets? Remember, this business is still in the red.

**BLAISDELL:** Yes, but you're still in operation, and you're spending less than you otherwise would. The incentive funds come from the reduced or avoided costs.

**INC.:** We see what you're saying. But don't CEOs have problems with that?

**BLAISDELL:** If the goal is to operate more efficiently and employees have worked hard and achieved that, a lot of managers I've worked with are happy to pay out the money.

**INC.:** Couldn't you create a threshold of profitability and say, "We won't pay out a dime until we earn *X*"?

**BLAISDELL:** Certainly. Cash profit-sharing incentive plans tie the organization and its employees together in shared success.

**INC.:** What's the downside?

**BLAISDELL:** The downside is that employees may not see a direct relationship between their efforts and the financial success of the organization. They could do everything right, meet all the productivity goals you set, and receive nothing. That's a hard message for a manager to deliver. An alternative is to design a system in which the incentive opportunity is tempered by profitability but not totally eliminated.

**INC.:** Say your business is slowing down or has already slowed down. Is this the time to think about some new incentives?

**BLAISDELL:** Depending on the circumstances, it could be an ideal time.

**INC.:** How do you get started? What's the best way to pitch a new incentive system?

**BLAISDELL:** I'd start by not even focusing on pay and incentives. I'd start by communicating what the business needs are, what the challenges are, how you'll be organizing the business as a whole and the role of each work group, what types of performance you'll be looking for, how you'll measure it, and what steps people will need to take to bring this improvement about. After I'd gone through all that, I'd decide whether these changes are so critical to the success of the company that I'd be willing to tie pay to them. But I wouldn't talk about pay until I'd established what it is we're trying to accomplish and how best to make it happen.

**INC.:** We've talked about company-wide incentives and incentives for smaller groups. When you're in the midst of a downturn, what kinds of things can you do for the managers you don't want to lose?

**BLAISDELL:** Some private companies set up long-term cash bonuses when they know they're not going to be paying an annual bonus. They tell managers they'll get *X*% of this year's pay later on—assuming the company meets its performance goals over the next two or three years.

Beyond this, there's phantom stock. Usually, it means giving a manager appreciation rights on, for example, hypothetical stock shares based on book value or actual stock value over a period of time. In private companies, phantom stock has some real advantages over other kinds of equity arrangements, although it can create a significant cash obligation down the line. In general, my feeling is that these incentives will help to retain your key people only if they believe in what you are doing and feel committed to the business.

**INC.:** So the CEO has to sell them on the future? How do you convince people that it will be worth their while to stick around?

**BLAISDELL:** The best way I know of is to infect them with your enthusiasm and conviction about the potential and future of the business. You need to reach out to your people and communicate your optimism and enlist their support. Motivated people are the strongest vehicle for improving performance that a manager has. You've got to be able to make the business tangible, to show people there really are customers out there who buy this product and who are the source of all revenue and potential for future growth.

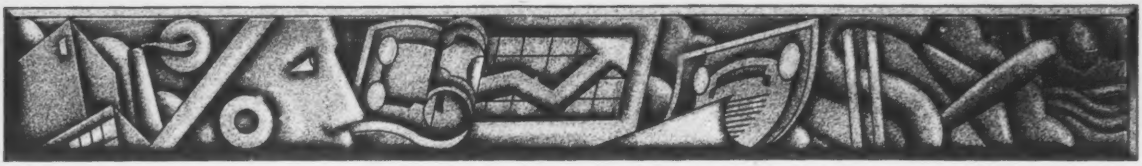
**INC.:** It's fine if you're feeling that way, but CEOs are people, too. What if they're feeling battered?

**BLAISDELL:** Mostly, I'm arguing for candor, for sharing the reality of the situation as they see it with the rest of the organization and talking about their ideas for improving things. People want to hear what the person at the top is thinking. Sharing concerns and ideas can be a very positive force.

If I were running a company, I'd also look around the organization for the people who are most positive about the future. Maybe the sales manager or a young engineer working on a new product line. I'd get them in front of employees and have them share what they see. Every organization has people who are feeling up about the future, who are making important inroads. When CEOs are feeling down, they should tap into those people.

The strongest investment a business owner can make is to tap the potential of the organization's people by communicating a vision of the future, enlisting everyone's support, and sharing in the success. ❑

*EXECUTIVE-COMPENSATION SURVEY (continued)*



INC.'S 1990 EXECUTIVE-COMPENSATION SURVEY

# HARD KNOCKS

## Compensation mistakes you can learn from

Talk to any owner-manager who has been in business awhile and you'll get an earful on executive-compensation incentives that have backfired—usually because of insufficient planning, excessive costs, or management blunders. These are some mistakes you'll want to avoid:

- **Building in performance disincentives.** "We had a gain-sharing plan that was so complicated people here called it a pain-sharing plan," recalls Anthony Harnett, CEO of Bread & Circus, a $60-million whole-foods supermarket chain headquartered in Newton, Mass. The plan's basic concept seemed appealing: any department that exceeded its profitability goals would receive quarterly bonuses from the gain-sharing pool. "But people began complaining about their targets, and the result was that everyone negotiated for the lowest possible platform from which to be measured. It came down to who could negotiate best, not who would perform best. So we gave it up and switched to a 401(k) plan for everyone."
- **Failing to monitor bottom-line results.** "I didn't take a raise for five years because I brought in a very expensive VP of sales and I felt as though I was investing my money in our company's future," says Joe Schulman of Sentry Chemical Co. And for a while, the company's sales did rise. But because of the cost of the executive's salary, perks, and expense account charges, and the additional staff he required, overall profit margins dropped fast. "After a few years I figured out that I had to evaluate the overall cost of having him in the business. And the results showed he wasn't worth it. Once I let him go, our sales dropped off a little, but profitability increased tremendously."
- **Giving away the store.** "When I was starting out, I had this tendency to ignore the things that I was uniquely doing for my business—like taking all the financial risk. So I would be very quick to give my top employees shares of the company," says Marshall Rafal, whose $1-million chemical software company, OLI Systems Inc., is based in Morris Plains, N.J. "As we grew larger and more profitable, I wanted to get those shares back under my control, but that meant spending a lot of the company's money to buy them back. And in some cases, I still haven't been able to afford it."
- **Designing excessively complex plans.** "We set up a profit-sharing plan because we wanted to reward longevity," says Carl Unrein, chief executive of Ambulance Service Co., a $6.8-million medical transportation company in Denver. Unfortunately, an insurance consultant suckered him into an administrative nightmare—a plan that allowed employees to make savings contributions that they could withdraw on demand. "We were buried under all the back-and-forthing of their giving us their money and then requesting it back whenever they felt they needed it. It wound up costing us $1 in administration costs for every $3 worth of assets we had—and we had $185,000 worth of assets the first year alone!" After three years of frustration Unrein canceled the plan, then switched to a plain-vanilla program offered by his banker. It permits profit-sharing contributions by the company only; it accomplishes the same corporate goals but costs just $2,000 a year to administer. ❑

## RESOURCES

Looking for clear, comprehensible information about executive-compensation strategies geared specifically to your needs as the owner of a growing business? There's not much available, but here are some places to start:

- **Read *Strategic Pay: Aligning Organizational Strategies and Pay Systems*, by Edward E. Lawler III** (Jossey-Bass Inc., 350 Sansome St., San Francisco CA 94104, $26.95). Here's a savvy, straightforward book that analyzes compensation strategies according to their financial and management results.
- **Subscribe to *Compensation & Benefits Manager's Report*** (Prentice Hall Professional Newsletters, 113 Sylvan Ave., Englewood Cliffs NJ 07632, $191.40 per year), an eight-page biweekly newsletter with quick tips on the latest strategies, analyzed down to their tax and legal implications. It's well worth the price, since articles are directed toward bottom-line savings.
- **Attend seminars offered by the American Compensation Association, or ACA,** (P.O. Box 29312, Phoenix AZ 85038-9312). Best suited for human resources staffers, with topics such as how to design executive-compensation programs and executive incentives.
- **Computerize with the help of *Software for Compensation Professionals: A Directory of Resources*** from the ACA (see above; $85, $75 for members). It'll show you software that can help you broaden your compensation program before you hire outside consultants.

## GREAT EXPECTATIONS

As part of our survey, we asked CEOs to tell us their outlook for the coming year. Here's what they said:

| Respondents' outlook for 1990 | Expect a downturn | Expect improvement | Expect little or no change |
|---|---|---|---|
| For the overall economy | 29% | 20% | 50% |
| For their region | 25 | 35 | 40 |
| For their industry | 23 | 40 | 37 |
| For their company's sales | 9 | 75 | 15 |
| For their company's profits | 14 | 66 | 20 |

**COMMUNITY SERVICE**

## Money Talks

Business owners looking to give grass-roots entrepreneurship a boost can support Accion International, a nonprofit organization that lends money to Latin American small businesses and is expanding its operations into the United States. Through Accion's Bridge Fund, investors deposit $10,000 in an 18-month certificate of deposit. Five percent of the interest goes to the investor. Anything else the CD earns pays for Accion's administrative costs.

The $2-million Bridge Fund backs letters of credit for loans made by local Accion affiliates. The loans have been spread out among 40,000 tailors, fruit merchants, mechanics, and others, who received an average of $227 each. Last year the default rate was only 2%.

For more information, write Accion International, 130 Prospect St., Cambridge MA 02139, or call (617) 492-4930. ❑

MARK KATZMAN

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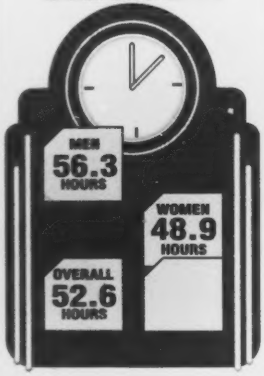
### TIME MANAGEMENT

THE MYTH OF THE 70-HOUR WORKWEEK

**Average workweek for small-business owners**



Source: Survey of 1,000 small-business owners with 10 or fewer employees. United Group Information Services, Hurst, Tex., 1990

*Valarie Wilson (second from right) at a QUIT meeting*

**MEETINGS**

## Informed Excitement

"After a tough time growing this company, people felt like quitting," says Valarie Wilson, chairman and CEO of Wilson Sculley Associates Inc., a St. Louis advertising firm. "They wondered what all their hard work was for." Once a quarter, Wilson lifts sagging spirits with a Saturday morning QUIT (quarterly internal talks) meeting.

Six meetings and one and a half years later, not one of her employees has quit.

Wilson believes that by seeing the numbers and plans typically reserved for board members, employees know exactly where they fit in. But she's convinced that it's the entertaining and often-offbeat presentations that really make the Saturday morning meetings work. At one quarterly meeting that used a sports motif, managers announced lineup changes in the organizational chart; posted scores for profitability, sales, and overhead for the first half of the year; and unveiled the strategy for the second half of the year.

Why hold meetings on Saturday? Employees aren't distracted then, notes Wilson, who has seen the company grow from $8.8 million in billings in 1989 to $15 million in gross billings this year. ❑

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**CUSTOMER SERVICE**

## Ideas in Motion

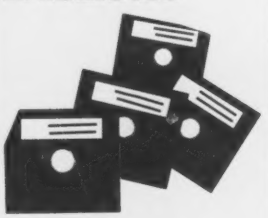
Like other businesses, West Point Market, in Akron, has a suggestion box. But at West Point you never know where it will turn up.

If you keep the box in the same spot, says company president Russell Vernon, people tend to forget it's there. "If you keep it in one department," he says, "customers usually write only about that department; you won't get feedback about the rest of your store."

West Point doesn't put a suggestion box in every department, partly because its handmade wooden box is expensive. But more important, says Vernon, "it would probably annoy customers." ❑

**REGULATIONS**

## Disability Diskette



BRUCE SANDERS

Confused about the Americans with Disabilities Act? You're not alone. The ADA regulation, enacted into law last summer, mandates major changes for countless U.S. businesses.

A group called International Resource Network on Disabilities has assembled everything you need to know about the ADA and put it on floppy disks. The information includes the actual bill and the congressional conference report, along with some practical tips on compliance with the act.

The disks run on IBM and Apple PCs and their compatibles. Send $5 for IBM disks or $6 for Apple disks to IRND, ADA Dept., 2232 S.W. 15th St., Fort Lauderdale FL 33312. Specify if you want the three-and-a-half-inch or the five-and-a-quarter-inch version. Or call the group at (305) 583-0645.

Two Washington, D.C., sources of more information: the President's Committee on Employment of People with Disabilities (1111 20th St. N.W., Washington DC 20036, 202-653-5044) offers a free information packet, and the Small Business Legislative Council has a compliance guide for $14.25, plus $1.50 postage and handling. (Orders for more than 25 copies will receive a discount.) To order, write the council, including your payment, at 1156 15th St. N.W., Suite 510, Washington DC 20005, or call (202) 639-8500. ❑

CHARTS: ELIOT BERGMAN

# HANDS ON

**BENEFITS**

## Data Trove

Now you can let your fingers do the walking when researching benefits packages for workers. The Employee Benefit Research Institute has packaged everything you need to know about benefits in *The EBRI DataBook.*

The 405-page reference tool is jammed full of surveys on costs and trends in benefits packages, including retirement plans, insurance, and child-care and vacation policies. It amasses information from a variety of sources and looks at it from the perspective of employers, program participants, and beneficiaries. The book costs $59.95 and is available from Johns Hopkins University Press, P.O. Box 4866, Hampden Station, Baltimore MD 21211, (301) 338-6946. ❑

**ADVERTISING**

## Swapping Ads

Television commercials are expensive. So are newspaper ads. So what's the most cost-effective way to reach potential customers? For Stuart Skorman, president of Empire Video, the answer is to use other stores and businesses in the area to help get your message across.

Skorman, who runs Empire Video Superstore, a chain of five stores based in Keene, N.H., swaps free and half-price movie-rental coupons to area merchants in return for advertising space in their stores. Or he'll offer them advertising space in his stores or in his newsletter to his 17,000 customers. Each year the exchanges get 50,000 to 100,000 pieces of promotion per video store in customers' hands. "It would be hard not to find advertisements for our stores in any of the communities we're in," says Skorman. ❑

WALTER JOHNSON

**INTERNATIONAL**
OFFICE POLLUTION

**In terms of your personal health, is your workplace healthful?**

| Region | Percent responding "very healthful" |
|---|---|
| United States | 20% |
| Canada | 16% |
| United Kingdom & Ireland | 11% |
| Australia & New Zealand | 9% |
| Continental Europe | 4% |

Source: "The Twenty-First Century Workplace" survey of 1,[illegible] business executives working around the world, P[illegible] Management Systems Inc., [illegible]

**MARKETING**

## The Winning Ticket

We've all received direct mail promising unbelievable prizes inside, only to be disappointed when we opened it and found a hitch. However, one hitchless contest that's on the up and up and needs no explaining is a state-run lottery.

Andy Juster and Scott Pilato, cofounders of $2-million-a-year Sunny Waterbeds & Accessories Inc., located in Orlando, decided to make good marketing use of their state lottery's credibility. They stuffed lottery tickets into mailings they sent to their top 100 retailers to announce a new line of bedroom furniture. The mailings specified when Sunny Waterbeds would follow up with a call. "Lottery ticket enclosed" was printed on the envelope.

*Andy Juster (left) and Scott Pilato*

The net result? When Sunny Waterbeds called a week later to announce the winning number, 70% of the prospects took the call and listened to its pitch. Usually 15% take the follow-up call on a mailing. "We were surprised," says Juster. "You wouldn't expect these people, who are really important, to hold on to a $1 lottery ticket for a week." ❑

**CEO'S READING LIST**

### *War As I Knew It*

by George S. Patton Jr.
Bantam Books, 1989

"General George S. Patton would remind himself during critical decisions, Do not take counsel of your fears. There's a tremendous amount of wisdom in that because if you listen to your fears, you won't get anything accomplished.

"When the funding was almost in place to start ChemDesign, a key player backed out. I felt like throwing in the towel. There were nights I didn't sleep. I repeated to myself, Do not take counsel of your fears. I got on a plane to Cleveland, met with the investor, and persuaded him to rejoin the deal. Eventually I raised the $12 million I needed.

"Patton's autobiography is really about leadership principles. Employees expect their leader to be strong and well dressed. Patton had that pearl-handled revolver and those polished boots. Sometimes you see people who think managing means being buddy-buddy: dress sloppy, act sloppy, and be one of the troops. That doesn't work because you lose respect and you can't lead without the respect of your subordinates.

"Patton also led by example. He was a very spartan leader. He exposed himself to personal danger and the miseries of fighting at the front. The soldiers adored him for it. They would have followed him to hell."

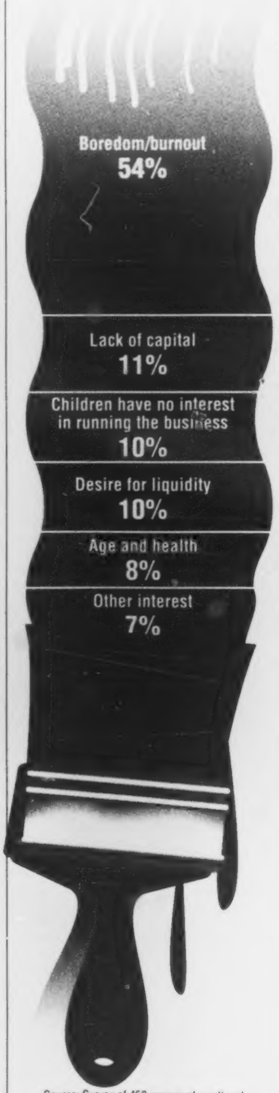
—Dick Brooks, CEO of
ChemDesign, Inc.,
Fitchburg, Mass.

# HANDS ON

## SELLING OUT

BEATS WATCHING PAINT DRY

**Why small-business owners want to sell**



Source: Survey of 450 owners of small and midsize businesses who are prospective sellers. The Geneva Cos., Irvine, Calif., 1990

ON THE CHEAP

## MEMORIES *By Cary Lu*

Does your computer have enough memory? Probably not. Nearly every new development in computing will require your computer to have more random access memory (RAM).

Since 1987 memory prices have dropped from more than $400 to less than $100 per megabyte. All Macintoshes can easily accept and use four or eight megabytes of memory. Although IBM PCs were stymied for years by MS-DOS with its 640-kilobyte RAM limit, Microsoft Windows 3.0, introduced earlier this year, finally allows programs to make effective use of more memory. Most current IBM PCs and compatibles can be upgraded to accept at least four megabytes of memory.

Memory prices are still high for two types of computers. Battery-operated portable computers need high-priced, low-power memory. And some 386-based desktop models require memory that still costs $200 to $300 per megabyte. If you have such a desktop computer, you might want to consider either getting a newer design or changing the main computer circuit board so you can install standard cheap memory.

Where can you buy it?

- **Mail order** is the cheapest, at $50 to $60 a megabyte. Check the back pages of computer magazines. You'll have to install the memory yourself.
- **Individuals who sell computer components** will often do on-site installation and typically charge $70 to $90 a megabyte. You're best off finding such people through referrals; try a local computer-user group or a university computing center.
- **Computer stores** vary greatly in their memory pricing—typically charging $100 or more a megabyte. On-site installation can add $50 to $100. Since the memory chips are standard, pricing has little to do with quality, so shop for the lowest price at the level of service you need. ❑

INCENTIVES

## One Day at a Time

Distant goals and deferred rewards can result in disillusioned employees. That's why at Seattle's Pacific Supply Co., workers take their bonuses one day at a time.

Every day that the apartment-supply company books $5,500 in sales, all 11 employees receive an extra half hour's pay. If daily sales hit $15,000, everyone racks up another 6 hours' wages. The previous year's sales provide the basis for Pacific's bonus targets. Paid out once a month, the bonuses accrue daily and in a typical month amount to an extra 20 hours' salary for each employee.

Since Pacific scrapped a monthly incentive program for a daily one, in 1986, sales have increased by more than half; turnover has plummeted to only one resignation in three years; and daily sales targets are hit four out of five days a week. And company president Michael Go says that because all employees share in the spoils, "instead of fostering individualism, we get teamwork." ❑

HIRING

## Morning, Noon, and Night

Some folks are morning people, some come to life at night, and others are bubbly all day. If you're in the service business, you want people who have a high energy level all day. How do you find them?

Barry Steinberg, president of $4-million Direct Tire Sales, a retail store in Watertown, Mass., always conducts three interviews with prospective employees on three separate days. One meeting takes place in the evening, a second at midday, and a third in the morning."I get an indication of their energy level at all hours," says Steinberg. "I want people who are good with customers all day long." ❑

BRUCE SANDERS

ENVIRONMENT

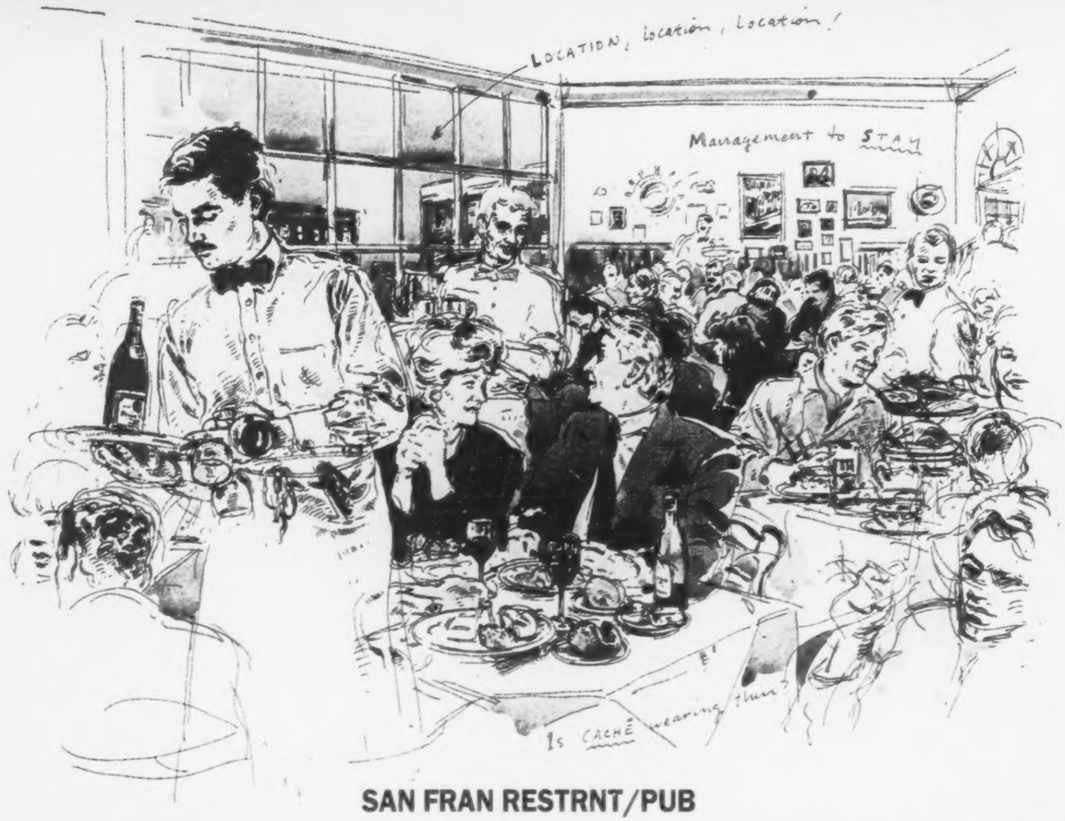
## Paper in, Paper Out

Most office recycling programs begin with buying recycled goods and end with collecting wastepaper. But because of high prices, few businesses are willing to set up programs. Now there's good news on the recycling front: 100%-recycled computer paper and legal pads are available at competitive prices. One supplier charges $37.49 for a 2,700-form carton of recycled computer paper, $2.47 *less* than it charges for its virgin counterpart, while a dozen recycled-paper legal pads cost $9.99, only $1.20 more.

You can order them through your local office-supplies store or directly from Earth Care Paper Inc., (608) 277-2920; UARCO, (800) 877-4132; or Quill Corp., (708) 634-4800. ❑

*Reported by Teri Lammers, Paul B. Brown, Jay Finegan, Anne Murphy, and Ellyn E. Spragins.*

# BUSINESS FOR SALE


LOCATION, location, Location!
Management to STAY
Is CACHÉ wearing thin?

## SAN FRAN RESTRNT/PUB

**THE BUSINESS** A restaurant and pub in San Francisco's touristy Marina district, which was hard hit by last year's earthquake. Fifty-five-seat dining room, 85-seat bar; clientele that's young, single, and local. The adamantly ordinary cuisine—nothing sundried in view—is moderately priced: burgers and appetizers run about $6. But food isn't the money-maker here—liquor is. The bar accounts for 70% of sales and helps keep margins, after food, liquor, and labor costs, around 43%.

**Financial Summary**
(in $ thousands)

| | 1987 | 1988 | 1989 |
|---|---|---|---|
| Gross sales | $918 | $1,134 | $1,295 |
| Cost of food & liquor | 221 | 287 | 338 |
| Cost of labor | 275 | 362 | 406 |

**PRICE** $750,000

**SALES TRENDS** Unlike much of the surrounding neighborhood, the business suffered little structural damage in the 1989 quake, but sales, which had been consistently rising, were down as much as 10% for some periods in 1990. California remains one of the most competitive restaurant markets in the country; San Francisco has one eatery for every 227 people. And this particular night spot, after eight years, may be getting old. Experts claim that restaurants typically enjoy 7- to 10-year life spans before their customers grow weary and their concept stale.

**PRICE RATIONALE** According to the insiders' formula of four to six times monthly sales, $650,000 is the best offer the seller should hope for. But he contends yearly cash flow's the *real* measure of his business. And his price is less than four times that amount, he points out.

**PROS** Location, location, location. Smack in the heart of a busy, safe neighborhood on the right side of town, this pub is, in many ways, sitting pretty—as weekend lines out the door attest.

**CONS** Business is off, and the restaurant discontinued its declining lunch trade last spring. It may lose 10% to 20% from its top line. Demographics indicate that a young, single, drinking clientele is more likely to shrink than grow. If this establishment's golden age is indeed past, the price may be out of line.

*INC. has no stake in the sale of the business featured and cannot confirm the accuracy of financial or other information offered by the seller. Inquiries should be directed to GVA Mergers & Acquisitions Inc., in Phoenix.*

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## THE INC. 500: AMERICA'S FASTEST-GROWING PRIVATE COMPANIES

DEC. 1990
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# 500

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# THE MARKET MAKERS

### Most businesses are endlessly searching for new markets. Here's how America's growth leaders go out and create their own

*BY JOHN CASE*

Frankly, you have to wonder how Dave Archer's company, Pioneer Pipe, out in Marietta, Ohio, ever made it onto this year's list of the 500 fastest-growing private companies in America. On the face of it, there's nothing special about the business. Just an ordinary company in an ordinary town.

You might ask the same question about Rick Heiniger's company, RHS Fertilizing/Spraying Systems, in Hiawatha, Kans. Most of us wouldn't peg spraying and fertilizing for the prototypical growth industry. And hasn't the Farmbelt been in something of a slump over the past few years?

Maybe you even have to wonder about Gateway 2000, in North Sioux City, S. Dak., which makes and sells personal computers. Sure, Gateway's in an exploding industry. But the competition in that business includes such companies as IBM and Compaq, not to mention low-price manufacturers such as Dell. Only five years ago Gateway employed just two people.

Make no mistake: An appearance on the *Inc.* 500 is no small feat. As a group, the companies on this year's list boosted their collective revenues from $563 million in 1985 to $9.6 billion last year. They created 56,858 new jobs. The average company on the list has been growing at an annual rate of 103%, adding nearly 23 employees every year.

And what are these companies' secrets? Certainly there are plenty of entrepreneurs scratching their heads and wondering the same thing. *What did they do that I'm not doing? How on earth could someone in* that *business grow so fast?* The startling diversity of the *Inc.* 500 only adds to the puzzle. How can a supplier of metal stampings show up on the same list with a supplier of monoclonal-antibody cancer-diagnosis kits? What does a cheese maker have in common with a computer-chip maker, or either one with a Social Security consultant?

Oddly, when you pose questions about growth to the founders of *Inc.* 500 companies, you hear little about the specific businesses they're in. Instead, you hear a lot about customers and competitors, all of it adding up to an unusual view of the marketplace. Other businesses typically think about serving a market; they want to do their job as well as, or better than, anyone else. *Inc.* 500 companies, by contrast, seem to think about *creating* a market. More often than not, they set out to do something no one else is doing.

How? Often by relentlessly pursuing One Big Idea—inventing a new product, a new niche, even a new industry. Some of the techno-wizards on our list fit into that category, as do some entrepreneurs who wouldn't know a floppy disk from a slipped disk. But other companies, remarkably enough, grow by exploiting not one idea but several, by creating not one new market but many. These companies—despite their modest size and deceptively ordinary veneer—*diversify*, though in a way that has little to do with old-fashioned, conglomerate-style diversification.

**Other businesses typically think about serving a market, but Inc. 500 companies seem to think about *creating* a market. They set out to do something no one else is doing.**

Both approaches have a big payoff. Consider some of the market-making companies on the list and you'll see what it is.

FOR A SELECT FEW, MARKET CREATION and *Inc.* 500–style growth originate with a big new technological idea—an idea that's then pursued with as much entrepreneurial as scientific zeal.

Krishan L. Kalra, for example, was working as a research chemist when he realized that the emerging biotechnology of monoclonal antibodies could be utilized for spotting cancer cells. Today Kalra's BioGenex Laboratories (#300) sells $2.3 million worth of diagnostic kits to hospitals and labs, and is spending heavily on research and development to investigate other methods of cancer diagnosis. Brooktree (#7), in San Diego, pioneered and patented a so-called mixed-signal computer chip, capable of condensing 25 square inches of circuit board onto one piece of silicon. Brooktree now holds an estimated 40% of the world market for the chips that produce colors on personal-computer and workstation screens.

But most Big Ideas aren't technological, even for companies in high-tech industries. Back in 1985, for example, Ted Waitt's Gateway 2000 was a tiny company selling software and peripherals for the ill-fated personal computer of Texas Instruments. Looking for growth opportunities, Waitt decided to get into the manufacture and sale of IBM-compatible PCs. But rather than take on all the companies in that crowded business, he figured he would sell through only one channel, mail-order ads in computer magazines. And he would sell for less than anyone else.

In effect, Waitt built an entire company to fill this niche. He located the business in South Dakota, where land and other costs are low. He pays employees as little as $6 an hour—minimizing fixed costs—and supplements the wage with regular bonuses from company profits. Gateway's single-minded marketing strategy eliminates retailers' markups and most salespeople's commissions; unlike other mail-order companies, such as Dell, it has no telemarketing expenses and no costly international operations. Its prices, as a result, are about half of IBM's—and typically are 10% to 20% below those of other direct marketers.

You also don't need any technological acumen to invent a new service, indeed, a whole new industry. Take James Allsup, founder and chief executive of Allsup & Associates (#239), based in Belleville, Ill. Before he started his company, Allsup's chief asset was five years with the government's Social Security Administration, which left him with a sizable store of knowledge and a profound distaste for the way his former employer treated the public. Disability claimants, for instance, were routinely discouraged from getting Social Security benefits, first by the complexity of the forms they had to fill out and then by the chilly reception they got from the agency. The losers in this process, Allsup realized, weren't just the victims themselves but also the insurance companies that wrote long-term disability policies. Disability benefits are typically reduced by the amount a claimant gets from Social Security. If nothing comes in from the feds, insurance foots the whole bill.

Loading up his car, Allsup set out on what turned into a 4,500-mile trip, visiting 27 insurance companies in three weeks. Give me a contract, he said, and I'll steer your policyholders through the Social Security maze, making sure they get all the benefits they're entitled to. The reaction? "Over half the companies said I was full of it. The others scratched their heads and said, Well, we don't know what to think. They ended up giving it a shot.

"It was really the creation of a new industry," concludes Allsup, "a nationwide, private service, without attorneys. It's like an H&R Block concept: we do the groundwork and serve as liaison between the government and the individual. We ourselves have more than 50 employees now, but in addition to that the insurance companies are hiring people to pay attention to Social Security, which they never did before. And we've got a lot of little competitors springing up."

WHAT'S STRIKING ABOUT the *Inc.* 500 isn't just the new products or the new niches; after all, a lot of companies hit on One Big Idea and parlay it into fast growth. Rather, it's that so many of these entrepreneurs have a knack for focusing on what customers need, not just what their own company happens to be selling at the time.

The result: companies that seem to move almost effortlessly from one area of growth to another. They integrate backward or forward, then turn their ventures into growing businesses in their own right. They spin off ancillary products no one else has thought of. They take on jobs outside their normal line of business—but always in attempts to make their core business healthier. It's diversification, but diversification that has little to do with conglomerate-style portfolio management.

Most of the time, for example, it's no news when a business decides to move up or down the production chain, adding, say, manufacturing or retailing capacity. But an *Inc.* 500 company such as Steadfast (#469), in Chelsea, Mass., doesn't stop there.

Steadfast's original product was a steel collar surrounding a car's steering column and ignition lock; the collar prevents a thief from popping the lock and hot-wiring the car. It caught on with rental-car companies, among other customers, and Steadfast grew. Then, when the two brothers who ran Steadfast's metal-stamping supplier decided to retire, Steadfast bought their business too. It was "an operational necessity," as chief financial officer Jim Fuller dryly puts it.

But Fuller and partner Mitko Zagoroff made a virtue of that necessity. Hiring some seasoned production managers away from General Electric, they turned the metalworking facility into a high-quality supplier of aircraft parts and other precision stampings. Today about 40% of Steadfast's revenues are from external stampings sales, up from 15% a few years ago, and the company's growth rate is effectively compounded. Steadfast, meanwhile, is in the process of developing other proprietary products to take advantage of its new capabilities, in hopes of compounding its growth rate once again.

Similarly, it's hardly startling when a manufacturer sells off its waste products. But what about a company that sees those products as yet another opportunity for growth? Golden Cheese Co. of California (#13), in Corona, makes a line of commodity and specialty cheeses, and has elbowed its way into a statewide market previously dominated by midwestern manufacturers. But fully 20% of its revenues this year will come from products other than cheese.

**Many of the *Inc.* 500 entrepreneurs have a knack for focusing on what customers need, not just what their own company happens to be selling at the time.**

"When you make cheese out of milk," explains CEO David Wooten, "you're left with whey-protein concentrate. We take that and make it into a 75%-protein food additive. Until recently we were the only ones doing it in this country, and even now we produce maybe 10% of the world's supply. What's left after you take out the whey protein is lactose and milk salts; we ferment these into ethanol. Some of that is used as a fuel additive, and we also have developed an industrial grade, used in cosmetics and pharmaceuticals."

Back when conglomeration was in fashion, companies diversified far and wide, hoping to protect themselves from cyclical downturns and other risks to their core businesses. As the marketplace grew more competitive, they found they couldn't manage all their far-flung ventures, and they were better off sticking to their knitting. *Inc.* 500–style diversification, by contrast, never takes a business very far from its central expertise. Steadfast produces metal-stamped parts for itself and for others. Golden produces cheese and its by-products. But both have learned to create new markets and bring in new revenues.

Often, indeed, a 500 company's real business seems to lie in what it knows rather than what it does, and branching out is not only easy but natural. RHS Fertilizing/Spraying Systems (#465), for instance, began life as a tiny spare-parts distributor, selling components for fertilizing systems to fertilizer and chemical retailers. But founder Rick Heiniger could see that the marketplace was opening up new opportunities. Fewer farmers were applying their own fertilizer and chemicals; more were hiring experts to do the job for them. The experts needed more durable and sophisticated equipment than a traditional tractor-pulled applicator.

Heiniger came up with some designs, bought a small metal-fabricating shop in Hiawatha, Kans., and began turning out customized Ford trucks—equipped with tanks, specially developed sprayer booms, electronic controls, even a patented sonar system that keeps the booms at precise heights over the ground on uneven terrain. No Farmbelt slump for Heiniger, who's now selling a couple of million dollars' worth of truck systems every year. Nor is he letting any corn grow under his feet. Realizing that the evolving industry gave him the opportunity to create still another market—to capitalize on the new competition, in effect—he's selling his lightweight booms and other products to other sprayer manufacturers.

The granddaddy of such expertise-based diversifiers has to be Pioneer Pipe (#93), which zoomed from a scant $500,000 in revenues five years ago to nearly $16 million last year. CEO Dave Archer chuckles as he describes his company's trajectory from business to business: first it was pipe fabrication, then mechanical contracting, then contract maintenance work, then steel erection, then general construction, even a little residential and commercial plumbing.

Aimless opportunism? Nope. What ties all those businesses together is the CEO's expertise in hiring specialized, highly skilled union workers and deploying them exactly when and where they're needed. Archer, a former business manager for the pipe fitters' union, employs union pipe fitters, ironworkers, carpenters, welders, and so on. To get started, he began fabricating big pipe assemblies for chemical companies such as Du Pont and American Cyanamid.

But diversification seemed only natural to someone with Archer's expertise. Mechanical construction? "We were already on bid-and-inquiry lists to fabricate the pipe. And we'd have people asking, 'Did you ever consider installing it as well?' Most journeyman pipe fitters have done that kind of work, so we had the knowledge." Maintenance? The building-trades unions had recently agreed on a standard facilities-maintenance contract offering companies 90% of standard rates and the assurance that no local union demands would interfere with the work. "We were one of the first contractors to use that agreement in the area."

Gradually, Archer realized his skilled employees and managers could do nearly anything in their field. He bid on and won a job to build a bank in Marietta, Ohio. He got a contract to disassemble a plant in Stamford, Conn. "We do jobs a lot of pipe fabricators would walk away from," he says. "We once assembled 13 or 14 tractor-trailer loads of 36-inch plastic pipe and sent it to Kansas for B. F. Goodrich. It took us six or eight weeks.

"We don't usually work with plastic pipe. But if a guy says, Can you do this? my instinct is always to say yes. Make him feel positive. It gets you one step closer to being that guy's first call."

FOR ALL THE DIFFERENCES between the tightly focused companies and the diversifiers, there's one big similarity between them and one big payoff from the market-creating strategies they pursue. Notice anything unusual about all those examples? *Not one of the companies has much competition.* Other businesses might try to outsmart or outflank competitors. *Inc.* 500 companies, more often than not, maneuver themselves into a position where they don't really have any.

One Big Idea market creators such as BioGenex or Allsup or Gateway leave the competition behind almost from the beginning. BioGenex and Allsup were selling their wares before anyone else even knew about the business. Gateway wasn't first off the mark, but it didn't take long to outstrip competitors in its one narrow niche. How many companies can sell only through Gateway's channel and for as little as Gateway can?

The diversifiers, similarly, elbow their way into enough niches so that would-be competitors have a built-in disadvantage. Golden Cheese faces plenty of competition in the cheese business but less in whey-protein concentrate. RHS is in distribution, systems assembly, and specialty manufacturing. And though there are plenty of pipe fabricators and contractors in the Ohio Valley region around Marietta, how many can do everything that Pioneer does? "The competition is fierce," says Archer, "union and nonunion alike. But we've tried to have the flexibility to put together whatever kind of package a guy needs. Staying flexible is what's enabled us to carve out a niche."

In the end, that may be the best explanation for why companies such as Dave Archer's or Rick Heiniger's or Ted Waitt's find themselves on the *Inc.* 500—and why some companies, indeed, seem to make the list year after year. Whether they have a single great idea or several pretty good ones, these CEOs have steered their companies into what amounts to a private segment of the marketplace. It's private because they themselves have created it.

Anyone who does that will find fast growth—*Inc.* 500 growth—hard to avoid. ❑

# THE 500 QUIZ

What sort of company grows an average of 1,600% in sales over five years?

▪

In what industries or areas of the country are you most likely to find them?

▪

What happens to profits in a fast-growth business?

▪

For that matter, what happens to the *founders*?

▪

When push comes to shove, how much do you really know about the dynamics of growth?

▪

Try this quiz about the *Inc.* 500, America's growth leaders, and turn the page to find the answers

**BY**
**MARTHA E. MANGELSDORF**

## True or False?

1. Most *Inc.* 500 companies are located in cities with 100,000 or more people.
2. To grow so fast, founders have to give up equity; most of the *Inc.* 500 CEOs who are founders don't own 100% of their companies' stock today.
3. Less than 10% of this year's *Inc.* 500 companies have CEOs who are women.
4. Most *Inc.* 500 companies achieved part of their growth through acquisitions.
5. Less than half of the founders of *Inc.* 500 companies are still the CEOs.
6. Extremely rapid growth is not easily sustainable; as a result, less than one in 10 of this year's class was on the 1989 list.
7. The majority of *Inc.* 500 companies are less than 10 years old.
8. Over the past five years, there has been almost no change in the industry makeup of the companies that get on the *Inc.* 500 list.
9. More than one in four companies on the list are in computer-related industries.
10. Many companies have to sacrifice profitability to grow rapidly; more than one-third of the 1990 *Inc.* 500 didn't make money in 1989.

## Multiple Choice

11. Almost all of the states below have had fewer than six companies make the *Inc.* 500 over the nine years we've been compiling the list. Which one of these states is the exception?

a. Alabama
b. Maine
c. Mississippi
d. Montana
e. Nevada
f. North Dakota
g. South Dakota
h. West Virginia
i. Wyoming

12. Which one of these companies never appeared on the *Inc.* 500 or on its predecessor, the 1981 Private 100?

a. Microsoft
b. Lost Arrow (makers of Patagonia clothing)
c. Federal Express
d. Domino's Pizza
e. Oracle
f. Charles Schwab
g. The Sharper Image

## Extra Credit

If all the *Inc.* 500 companies were spread evenly throughout the United States, there'd be about two for every 1 million people. But growth doesn't work that way. Some places do much, much better than others at yielding fast-growing small companies for this list. Below is a list of the 10 largest consolidated metro areas in the United States. Just for fun, can you guess the order they rank in as entrepreneurial hot spots—in this case measured by the number of 1990 *Inc.* 500 companies per capita?

New York City
Los Angeles
Chicago
Houston
Philadelphia
Detroit
Boston
Dallas
Washington, D.C.
San Francisco

Hint: Because this is a per-person measure, the size of the city won't affect its rating. Also, consolidated metro areas include many suburbs. The New York City area, for example, includes parts of New Jersey and Connecticut.

PHOTOGRAPHS: H. ARMSTRONG ROBERTS

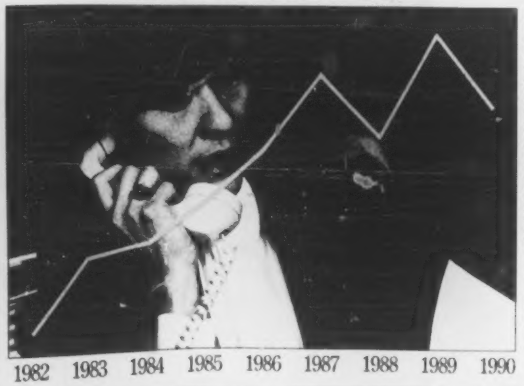
## The Answers

**1. FALSE** This is a bit of a trick question, however. The vast majority of *Inc.* 500 companies are near such cities, but less than half are in them. That's because suburbs are often where the growth is these days, with some suburbs becoming "edge cities"—new cities that spring up alongside the old ones. For example, there are 12 *Inc.* 500 companies in the Seattle area this year, but only 3 are in Seattle itself. Bellevue, a fast-growing neighboring community that is about one-fifth the size of Seattle, has just as many *Inc.* 500 companies as Seattle does.

**2. TRUE** Just 26% of the CEOs who were founders told us that they had retained 100% of their company's equity. That is especially true for the fastest-growing companies, which presumably needed capital the most. Only one of the top 20 companies on the list is run by a CEO/founder who still owns 100% of the stock.

**3. TRUE** Although the number of female *Inc.* 500 CEOs has increased substantially over the nine years we've been compiling the list, women are the sole CEOs of only 6.4% of the companies on the 1990 list. Even if we include companies that have more than one CEO, the proportion rises to only 7.6%. However, those statistics understate women's participation in *Inc.* 500 companies. Some *Inc.* 500 companies are headed by husband-and-wife teams, and the wife often may have some other title. We don't know for precisely how many companies that's the case, but here's one indication: in a survey of last year's *Inc.* 500, 18% of chief executives said their spouse was involved in the company's management.

NUMBER OF INC. 500 COMPANIES
WITH WOMEN AS SOLE CEOS

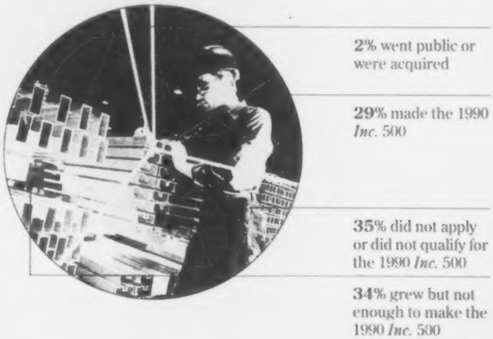


**4. FALSE** Only 101 of the 500 made acquisitions between 1985 and 1989, and 49 of those companies made only one. Bryant Management, a Houston-based real estate developer, was the most active buyer, with 36 acquisitions.

**5. FALSE** In part because of the young age of these companies, nearly 90% of the founders are still the CEOs.

**6. FALSE** Twenty-nine percent of last year's companies made this year's list.

Of the 1989 *Inc.* 500 companies,



**7. TRUE** Because our list measures percentage—not absolute dollar—growth, it has a strong bias toward young, emerging companies. A company that grows from $200,000 to $2 million will make the 500, while one that grows from $20 million to $100 million won't. As a result, we have many new companies. Although all must be at least five years old, only 90 were founded in 1980 or earlier.

**8. FALSE** When economic sectors experience extraordinary growth, they are heavily represented on the list. Here's how the representation of three growth industries changed between the 1985 list, which reflects sales growth between 1980 and 1984, and this year's.

| | Number of *Inc.* 500 Companies | | % Change |
|---|---|---|---|
| | 1985 | 1990 | |
| Health-care related | 17 | 43 | 153% |
| Environmental | 4 | 20 | 400% |
| Personnel and employment | 8 | 18 | 125% |

Changes on the list also hint at some more subtle emerging trends. Although the samples are too small to mean much by themselves, we're not surprised that in 1985 there were no companies that described their primary business as computer networking, and this year there are 11. Similarly, not even one company on the '85 list specifically targeted the elderly; this year, 6 do. And there weren't any 1985 *Inc.* 500 companies that identified their business niche as health-care cost containment. This year 3 found that a market with fast-growing demand.

**9. TRUE** Although companies in all sorts of industries—from insurance to oil drilling—made this year's list, it certainly helped to be in the still-fast-growing computer-related fields, which were represented by 137 companies.

**10. FALSE** Of the 1990 *Inc.* 500 companies, 423 were profitable in 1989, up from 1985, when only 289 of them were in the black.

THE 1990 INC. 500 PROFITABILITY BREAKDOWN

| | Number of Companies | |
|---|---|---|
| **Profit Margin** | **1985** | **1989** |
| 16% or more | 51 | 41 |
| 11%–15% | 33 | 49 |
| 6%–10% | 73 | 108 |
| 1%–5% | 132 | 225 |
| Break-even | 24 | 24 |
| Loss | 187 | 53 |

**11. ALABAMA** is the state that's out of place here; it has six companies on this year's list alone. Over the nine-year history of the *Inc.* 500, Alabama has been represented by 27 companies, most of them located in and around Birmingham and Huntsville.

**12. FEDERAL EXPRESS** We were too late: by the time *Inc.* was launched, in 1979, Federal Express was already a public company. However, the firm did make the 1979 *Inc.* 100 list of the fastest-growing small public companies.

## Extra Credit

Here's how the cities rank, using 1988 population estimates. Because the sample involved is so small, only substantial differences in the ratings mean much. One illustration: for the New York City area to have as high a rate as the Washington, D.C., area does, it would have to be home to 168 more companies!

INC. 500 COMPANIES PER 1 MILLION PEOPLE

| | | | |
|---|---|---|---|
| Washington, D.C. | 10.7 | Dallas | 2.1 |
| Boston | 6.1 | **National average** | **2.0** |
| San Francisco | 5.6 | Detroit | 1.9 |
| Houston | 3.6 | Chicago | 1.6 |
| Philadelphia | 3.4 | New York City | 1.5 |
| Los Angeles | 2.4 | | |

If you were surprised to see D.C. ranked so much higher than the other cities, you're not alone. However, *Inc.*'s 1990 list of the fastest-growing metro areas in the country (see "The Most Entrepreneurial Cities in America," March 1990) did rank D.C. second overall. That study also shows that a higher percentage of young companies are growing rapidly in D.C. than in all but one other city in the country. What's not clear is how long that growth will continue during an era of federal budget crises. ❑

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# THE 500

|  | Company (1989 rank)<br>Business description | Sales growth 1985-89 % increase | '89 sales ($000) | '85 sales ($000) | Profit range* '89 | Profit range* '85 | No. of employees '89 | No. of employees '85 | Date founded |
|---|---|---|---|---|---|---|---|---|---|
| **1.** | **Cogentrix** (1) Charlotte, NC<br>Develops & operates cogeneration facilities | 151,681% | $201,869 | $133 | D | D | 359 | 64 | 1983 |
| **2.** | **Gateway 2000** North Sioux City, SD<br>Mfrs. & sells PCs | 69,775 | 70,574 | 101 | C | A | 235 | 2 | 1985 |
| **3.** | **CEBCOR** (3) Chicago, IL<br>Provides employee leasing svcs. | 39,636 | 47,683 | 120 | E | E | 55 | 11 | 1983 |
| **4.** | **Corporate Express** Aurora, CO<br>Distr. office & computer prods. | 24,644 | 30,683 | 124 | E | F | 284 | 8 | 1985 |
| **5.** | **ComputerWare** Palo Alto, CA<br>Sells computer hardware, software, & periph. | 21,916 | 31,923 | 145 | D | D | 133 | 3 | 1985 |
| **6.** | **LGB** Chula Vista, CA<br>Mfrs. men's & women's swimwear | 19.349 | 21,783 | 112 | D | F | 165 | 30 | 1984 |
| **7.** | **Brooktree** San Diego, CA<br>Mfrs. electr. components for computer graphics | 17,244 | 51,164 | 295 | A | F | 420 | 25 | 1981 |
| **8.** | **ATC Services** Atlanta, GA<br>Provides temporary medical help svcs. | 15,044 | 29,379 | 194 | D | F | 81 | 7 | 1985 |
| **9.** | **Octocom Systems** Wilmington, MA<br>Mfrs. data comm. systs. for global networks | 14,886 | 19,482 | 130 | C | F | 145 | 3 | 1984 |
| **10.** | **Northgate Computer Systems** (58) Eden Prairie, MN<br>Mfrs. & sells PCs | 13.555 | 111,559 | 817 | D | D | 550 | 2 | 1968 |
| **11.** | **Softworks Development** Menomonee Falls, WI<br>Distr. computer equip. | 11,692 | 12,028 | 102 | D | E | 26 | 3 | 1984 |
| **12.** | **Chipcom** Southborough, MA<br>Designs, mfrs., & mkts. networking solutions | 11,679 | 17,080 | 145 | C | F | 143 | 22 | 1983 |
| **13.** | **Golden Cheese Co. of California** Corona, CA<br>Mfrs. cheese & other dairy prods. | 11,542 | 125,506 | 1,078 | E | F | 225 | 50 | 1983 |
| **14.** | **DUAL & Associates** Arlington, VA<br>Provides support svcs. & contract mfr. to govt. | 10,751 | 17,470 | 161 | D | F | 212 | 8 | 1983 |
| **15.** | **Intuit** Menlo Park, CA<br>Automates finan. work for small businesses | 10,623 | 18,658 | 174 | B | F | 110 | 4 | 1983 |
| **16.** | **Comprehensive Technologies Int'l** Chantilly, VA<br>Provides military & logistics eng. svcs. | 10.619 | 11,362 | 106 | D | F | 186 | 23 | 1980 |
| **17.** | **McBride & Associates** Albuquerque, NM<br>Sells computer hardware, software, & related svcs. | 10,514 | 13,268 | 125 | C | F | 37 | 1 | 1985 |
| **18.** | **OSP Consultants** (8) Sterling, VA<br>Provides telecomm., eng., & construction svcs. | 10,191 | 23,567 | 229 | B | A | 362 | 12 | 1984 |
| **19.** | **Beta Plastics** Carlstadt, NJ<br>Mfrs. & distr. polyethylene bags | 9.183 | 14,203 | 153 | C | F | 85 | 30 | 1985 |
| **20.** | **Icon International** New York, NY<br>Provides domestic & int'l bartering svcs. | 9.135 | 11,451 | 124 | E | F | 17 | 3 | 1985 |
| **21.** | **LiTel Communications** Worthington, OH<br>Provides long-distance telecomm. svcs. | 8,370 | 197,868 | 2,336 | F | F | 684 | 180 | 1983 |
| **22.** | **National Safety Associates** (62) Memphis, TN<br>Mfrs. & distr. water- & air-filtration prods. | 8,039 | 180,767 | 2,221 | B | D | 800 | 50 | 1969 |
| **23.** | **Dial-Net** Sioux Falls, SD<br>Mkts. long-distance telephone svcs. & equip. | 7,979 | 27,063 | 335 | C | F | 300 | 15 | 1985 |
| **24.** | **Plant Technical Services** Hurst, TX<br>Provides contract eng. & technical svcs. | 7,563 | 8,889 | 116 | D | A | 200 | 4 | 1985 |
| **25.** | **Panda Resources** Tulsa, OK<br>Explores & mkts. natural gas & oil | 7,341 | 75,081 | 1,009 | D | F | 21 | 5 | 1983 |

*A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

RANK

1

**GEORGE LEWIS**

**Cogentrix**

*"When I started this company, I had to learn finance at the age of 54. I had to look good in the eyes of all these bright and shiny M.B.A.s."*

■

## THE COMPANY

Cogentrix is the first company to take the number-one spot on the *Inc.* 500 for two years in a row.

Credit in part the huge leap in revenues the company had from 1985 to 1986—from $133,000 to $17 million—when its cogeneration facilities began full-tilt production of electricity for utilities and steam for manufacturing companies in three North Carolina cities.

Lewis founded Cogentrix on the premises that coal burning can be cleaner than its image and that the supply of coal is more stable than that of oil or gas, a proposition certainly borne out this year.

## THE FOUNDER

Lewis was "born and dragged up in the streets of Brooklyn," son of a teacher and a draftsman. He took his street smarts to Con Edison and then two engineering firms before starting his company.

Despite its size, Cogentrix is a family business: Lewis holds 52% of the equity, and the other 48% is held by his three sons, who are managers.

PHOTOGRAPH: CHIP HENDERSON

INC.
500

RANK
46
## DONALD EMERY
## Reference Software International

*"I think I was always fascinated but intimidated by the idea of running my own company. I never had that natural affinity."*

■

### THE COMPANY

As a marketing professor, Emery encouraged his students to use word processors. "The papers looked nicer," he says, "but there was still incredibly bad writing, grammar, and spelling." So Emery and partner Bruce Wampler founded a company to solve those problems. They first developed a pop-up dictionary for computers; later came a breakthrough program, Grammatik, which flags awkward phrases in text.

"Most people who don't write for a living don't realize that the skill of writing really is in the revision stage," says Emery. "This program makes it easier to do that."

The company's next step: marketing French and German grammar checkers in Europe.

### THE FOUNDER

Emery did a stint at R. J. Reynolds before getting a Ph.D. in marketing. In 1975 he began teaching; he's now on sabbatical from San Francisco State University.

"Despite all my education, I am a very, very bad speller," he says.

| | Company (1989 rank)<br>Business description | Sales growth 1985-89 % increase | '89 sales ($000) | '85 sales ($000) | Profit range* '89 | Profit range* '85 | No. of employees '89 | No. of employees '85 | Date founded |
|---|---|---|---|---|---|---|---|---|---|
| 26. | **Oldenburg Group** (20) Milwaukee, WI<br>Mfrs. industrial prods. | 7,243% | $131,219 | $1,787 | D | C | 975 | 21 | 1943 |
| 27. | **Americom Distributors** Marietta, GA<br>Distr. computer prods. & periph. | 7,187 | 13,699 | 188 | D | F | 38 | 5 | 1985 |
| 28. | **Grandis Distribution** Huntington Beach, CA<br>Distr. computers & related prods. | 6,856 | 8,904 | 128 | D | D | 31 | 3 | 1983 |
| 29. | **NYMA** Greenbelt, MD<br>Provides hardware & software systs.-integ. svcs. | 6,764 | 27,114 | 395 | D | D | 300 | 15 | 1978 |
| 30. | **Onsite Engineering & Management** Norcross, GA<br>Provides technical svcs. to nuclear-power industry | 6,717 | 7,430 | 109 | C | F | 78 | 1 | 1985 |
| 31. | **Pacific Precision Laboratories** Chatsworth, CA<br>Mfrs. measuring & testing equip. | 6,644 | 8,835 | 131 | C | E | 80 | 5 | 1985 |
| 32. | **Coverall North America** San Diego, CA<br>Operates commercial & industr. cleaning franchise | 6,632 | 8,213 | 122 | C | B | 64 | 7 | 1985 |
| 33. | **Abacus** San Francisco, CA<br>Provides computer training & consulting svcs. | 6,199 | 10,015 | 159 | D | F | 40 | 14 | 1971 |
| 34. | **Technology Works** Austin, TX<br>Mfrs. & sells computer memory | 6,152 | 10,065 | 161 | D | F | 73 | 5 | 1983 |
| 35. | **Cita Technologies** Emmaus, PA<br>Sells computer hardware & periph. | 5,716 | 9,248 | 159 | D | E | 35 | 3 | 1985 |
| 36. | **Berne/Monroe Groups** New Braunfels, TX<br>Operates fast-food restaurants | 5,620 | 19,678 | 344 | F | D | 400 | 10 | 1985 |
| 37. | **Melaleuca** Idaho Falls, ID<br>Mkts. pharmaceuticals & personal-care prods. | 5,510 | 16,942 | 302 | A | F | 67 | 7 | 1985 |
| 38. | **HealthStaffers** (98) Chicago, IL<br>Provides nursing svcs. to hospitals | 5,164 | 11,001 | 209 | A | F | 300 | 6 | 1977 |
| 39. | **Ehman** Evanston, WY<br>Mfrs. disk drives & computer keyboards | 5,115 | 6,101 | 117 | D | F | 129 | 13 | 1985 |
| 40. | **PPOM** (76) Southfield, MI<br>Provides health-care svcs. | 4,968 | 5,575 | 110 | D | F | 60 | 6 | 1982 |
| 41. | **Traveling Software** (30) Bothell, WA<br>Develops microcomputer software | 4,911 | 10,873 | 217 | C | F | 90 | 12 | 1983 |
| 42. | **American Biodyne** South San Francisco, CA<br>Provides mental-health treatment programs | 4,820 | 10,677 | 217 | F | F | 350 | 40 | 1965 |
| 43. | **Personnel Temps** Spartanburg, SC<br>Provides temporary-help svcs. | 4,725 | 5,838 | 121 | D | F | 27 | 2 | 1985 |
| 44. | **American Technical Resources** Annandale, VA<br>Provides contract professional svcs. | 4,654 | 10,648 | 224 | D | F | 165 | 3 | 1985 |
| 45. | **Retix** Santa Monica, CA<br>Designs, mfrs., & mkts. computer systs. & software | 4,495 | 35,890 | 781 | C | F | 340 | 10 | 1985 |
| 46. | **Reference Software Int'l** San Francisco, CA<br>Develops & publishes writing-improvement software | 4,479 | 5,174 | 113 | B | F | 43 | 6 | 1985 |
| 47. | **Soft Warehouse** Dallas, TX<br>Sells microcomputer hardware, software, & periph. | 4,413 | 137,458 | 3,046 | D | D | 750 | 8 | 1984 |
| 48. | **SRSA** Arlington, VA<br>Provides aviation training svcs. | 4,357 | 17,963 | 403 | C | A | 350 | 5 | 1983 |
| 49. | **StarPak International** (90) Denver, CO<br>Provides software svcs. | 4,315 | 4,989 | 113 | D | D | 59 | 1 | 1979 |
| 50. | **New York Style Bagel Chip** Skillman, NJ<br>Mfrs. bagel chips & pita chips | 4,305 | 12,423 | 282 | C | D | 225 | 3 | 1985 |
| 51. | **Pierce Kennedy Hearth** Chester, CT<br>Provides mgmt. svcs. | 4,297 | 4,397 | 100 | D | F | 125 | 18 | 1984 |
| 52. | **Owen Development** Monrovia, CA<br>Provides general-contracting svcs. | 4,245 | 20,944 | 482 | D | B | 12 | 5 | 1983 |
| 53. | **Attachmate** Bellevue, WA<br>Develops software connectivity prods. | 4,235 | 56,438 | 1,302 | A | C | 221 | 11 | 1984 |
| 54. | **Universal Nutrition** Norcross, GA<br>Sells health prods. by mail order | 4,200 | 10,320 | 240 | C | C | 1 | 1 | 1981 |
| 55. | **Unitech of Alaska** Anchorage, AK<br>Sells & distr. environmental equip. | 4,174 | 8,890 | 208 | A | A | 22 | 4 | 1985 |
| 56. | **Hertzberg Rare Coin Investments** (29) Tacoma, WA<br>Buys & sells rare U.S. coins | 4,137 | 13,558 | 320 | C | C | 6 | 1 | 1984 |
| 57. | **Complete Business Solutions** Farmington Hills, MI<br>Provides software consulting svcs. | 4,111 | 18,192 | 432 | C | C | 195 | 40 | 1985 |
| 58. | **Interactive Dvlpmt. Environments** San Francisco, CA<br>Develops & sells CASE software | 4,001 | 9,802 | 239 | F | A | 102 | 4 | 1983 |
| 59. | **Sterling Courier Systems** Herndon, VA<br>Provides same-day air-courier svcs. | 3,780 | 4,190 | 108 | D | F | 24 | 2 | 1985 |
| 60. | **Northwest Temporary Services** Portland, OR<br>Provides temporary-help svcs. | 3,757 | 6,519 | 169 | D | F | 40 | 4 | 1985 |

*A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

PHOTOGRAPH: CHRISTOPHER SPRINGMANN

RANK

89

**RON ZWANZIGER**

**MediSense**

*"We were close to running out of cash a number of times. Compared with that, nothing today is very difficult."*

■

### THE COMPANY

When Zwanziger and three other students at Harvard Business School founded their biotechnology company, in 1981, their strategy was to invent and tinker with 10 products. Surely, they figured, one would hit big.

In 1984 MediSense began honing in on one product—biosensors used by diabetics to read their blood-sugar levels. Then the money began pouring in: $60 million from investors so far, used in large part to develop an extensive international direct-sales force. Revenues from the user-friendly line hit $30 million last year, up from just $2 million two years previously. Zwanziger plans to take MediSense public in early 1991.

"A company with a sales force worldwide is a better company in the long run," he says. "And we make more money this way."

### THE FOUNDER

Zwanziger grew up in Cyprus, then was educated in Great Britain. He received an engineering degree from Imperial College at London University before attending Harvard Business School.

| | Company (1989 rank)<br>Business description | Sales growth 1985-89 % increase | '89 sales ($000) | '85 sales ($000) | Profit range* '89 | Profit range* '85 | No. of employees '89 | No. of employees '85 | Date founded |
|---|---|---|---|---|---|---|---|---|---|
| **61.** | **Telogy** Redwood City, CA<br>Sells & leases telecomm. test equip. | 3,732% | $39,159 | $1,022 | D | A | 125 | 65 | 1984 |
| **62.** | **Economy Maintenance Supply** Alexandria, VA<br>Distr. specialty items | 3,610 | 3,970 | 107 | D | C | 30 | 2 | 1985 |
| **63.** | **American Information Systems** Tamarac, FL<br>Installs, svcs., & maintains telecomm. systs. | 3,599 | 15,500 | 419 | A | A | 166 | 11 | 1976 |
| **64.** | **New Pig** Tipton, PA<br>Mfrs., distr., & sells industrial absorbents | 3,595 | 13,191 | 357 | D | F | 160 | 5 | 1985 |
| **65.** | **American Central Gas** (12) Tulsa, OK<br>Gathers, processes, & mkts. natural gas | 3,516 | 416,275 | 11,511 | D | D | 113 | 13 | 1983 |
| **66.** | **Asymtek** Carlsbad, CA<br>Mfrs. automated fluid-dispensing systs. | 3,514 | 5,385 | 149 | B | F | 50 | 6 | 1983 |
| **67.** | **Trend Personnel Resources** Cincinnati, OH<br>Provides temporary-& permanent-help svcs. | 3,453 | 7,390 | 208 | C | F | 26 | 3 | 1985 |
| **68.** | **Offshore Pipelines** Houston, TX<br>Provides marine construction svcs. | 3,438 | 103,924 | 2,937 | D | F | 600 | 75 | 1984 |
| **69.** | **Omnitel** Fremont, CA<br>Mfrs. modems & other computer prods. | 3,424 | 13,392 | 380 | F | F | 70 | 37 | 1984 |
| **70.** | **Alta Petens** Boone, NC<br>Provides physical-, speech-, & occup.-therapy svcs. | 3,407 | 12,135 | 346 | A | A | 220 | 5 | 1982 |
| **71.** | **Liuski International** (5) Melville, NY<br>Distr. computers & related equip. | 3,379 | 88,564 | 2,546 | D | D | 250 | 8 | 1984 |
| **72.** | **RMC Research** Hampton, NH<br>Provides research & training svcs. | 3,351 | 4,072 | 118 | D | D | 47 | 14 | 1970 |
| **73.** | **C.H. Love & Co.** Abilene, TX<br>Develops software for lawn-care industry | 3,201 | 11,983 | 363 | F | D | 35 | 2 | 1981 |
| **74.** | **Omni Technical Services** Uniondale, NY<br>Operates & manages waste-mgmt. facilities | 3,109 | 3,658 | 114 | F | D | 13 | 1 | 1985 |
| **75.** | **AMBAR** Lafayette, LA<br>Provides drilling svcs. to oil industry | 3,052 | 15,100 | 479 | C | D | 70 | 4 | 1980 |
| **76.** | **Viewlogic Systems** Marlboro, MA<br>Develops, sells, & mkts. CAE software | 3,029 | 19,527 | 624 | C | F | 144 | 40 | 1984 |
| **77.** | **Productive Transportation Services** Tonawanda, NY<br>Provides transportation brokerage svcs. | 3,023 | 8,837 | 283 | D | D | 18 | 4 | 1983 |
| **78.** | **Cencom Cable Associates** (60) Chesterfield, MO<br>Manages cable-TV systs. | 2,998 | 59,142 | 1,909 | F | F | 950 | 435 | 1982 |
| **79.** | **Delta Technology International** Eau Claire, WI<br>Develops & mkts. software utility programs | 2,966 | 3,342 | 109 | A | B | 27 | 3 | 1983 |
| **80.** | **Overseas Telecommunications** Alexandria, VA<br>Mfrs. satellite & fiber-optics telecomm. | 2,953 | 14,897 | 488 | D | F | 73 | 7 | 1984 |
| **81.** | **National Data Products** (190) Clearwater, FL<br>Resells value-added computer equip. | 2,938 | 14,916 | 491 | F | F | 80 | 5 | 1982 |
| **82.** | **Information Packaging** Macedon, NY<br>Mfrs. packaging for computer diskettes | 2,896 | 6,712 | 224 | D | F | 46 | 7 | 1985 |
| **83.** | **Modern Technologies** (53) Dayton, OH<br>Provides technical svcs. | 2,885 | 10,060 | 337 | C | B | 225 | 15 | 1984 |
| **84.** | **Horizon Data** (87) Reston, VA<br>Provides systs.-integ. svcs. | 2,875 | 7,407 | 249 | E | F | 37 | 2 | 1983 |
| **85.** | **Staffkings of Binghamton** Binghamton, NY<br>Provides personnel consulting svcs. | 2,864 | 11,410 | 385 | D | D | 52 | 15 | 1962 |
| **86.** | **Executive Software** (33) Glendale, CA<br>Develops & mkts. systs. software | 2,820 | 8,175 | 280 | B | D | 89 | 4 | 1981 |
| **87.** | **Allen-Ashley** Evergreen, AL<br>Mfrs. vehicles for the elderly & the handicapped | 2,816 | 3,762 | 129 | D | F | 45 | 10 | 1983 |
| **88.** | **California School Furnishings** Fresno, CA<br>Sells school, office, & church furnishings | 2,795 | 5,268 | 182 | D | A | 33 | 2 | 1985 |
| **89.** | **MediSense** Cambridge, MA<br>Mfrs. & mkts. biomedical prods. | 2,786 | 30,216 | 1,047 | F | F | 521 | 100 | 1981 |
| **90.** | **Meridian Instruments** Okemos, MI<br>Mfrs. & sells medical instruments | 2,778 | 4,029 | 140 | C | F | 32 | 11 | 1981 |
| **91.** | **Tri-State Publishing & Commun.** Bala Cynwyd, PA<br>Publishes real estate guides & mkt. svcs. | 2,758 | 2,887 | 101 | A | F | 15 | 3 | 1985 |
| **92.** | **Curry Industries** Kansas City, MO<br>Provides transportation brokerage svcs. | 2,750 | 3,363 | 118 | D | D | 7 | 1 | 1985 |
| **93.** | **Pioneer Pipe** Marietta, OH<br>Fabricates pipe & steel | 2,684 | 15,756 | 566 | C | D | 250 | 15 | 1981 |
| **94.** | **TransAmerica Telemarketing** Washington, DC<br>Provides telemkt. & direct-mail svcs. | 2,679 | 5,863 | 211 | D | F | 102 | 20 | 1985 |
| **95.** | **Public Brand Software** Indianapolis, IN<br>Distr. shareware computer software | 2,678 | 3,056 | 110 | A | C | 16 | 1 | 1985 |

*A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

PHOTOGRAPH KINDRA CLINEFF

RANK

## 108

## CLEMON H. WESLEY
## TEXCOM

*"Schools teach African Americans to go out and get 8:00-to-5:00 jobs. Very little suggests to them that they might want to start their own businesses."*

■

### THE COMPANY

TEXCOM, a telecommunications and engineering services firm, takes advantage of the 25 years Wesley spent in the army by pursuing contracting work for the military. Now, with the changing political climate, the company pursues more private-sector jobs. "The whole world is retrenching," says Wesley, "and in this marketplace people are doing whatever it takes to win jobs."

### THE FOUNDER

Wesley's parents were sharecroppers in Texas. He went into the army in 1957, rising from second lieutenant to colonel; he also got an M.S. in communications and a law degree. After leaving the army, he started his company in his basement in 1982.

Today Wesley is president of the National Business League of Southern Maryland and spends time on mentoring programs for the minority community: "I have business mixers, training programs—all designed to try to get minority businesses into the mainstream of this economy."

| | Company (1989 rank)<br>Business description | Sales growth 1985-89 % increase | '89 sales ($000) | '85 sales ($000) | Profit range* '89 | Profit range* '85 | No. of employees '89 | No. of employees '85 | Date founded |
|---|---|---|---|---|---|---|---|---|---|
| 96. | **Gainey Transportation Svcs.** (11) Grand Rapids, MI<br>Provides long-distance trucking svcs. | 2,642% | $21,583 | $787 | C | C | 265 | 13 | 1984 |
| 97. | **Phoenix Call Reporting** Lincoln Park, NJ<br>Provides sales automation software | 2,607 | 2,788 | 103 | A | F | 27 | 7 | 1985 |
| 98. | **Your Staff** (472) Woodland Hills, CA<br>Provides employee leasing & human resources svcs. | 2,606 | 29,851 | 1,103 | C | F | 33 | 2 | 1979 |
| 99. | **TPS Consultants** Redding, CA<br>Provides temporary- & permanent-help svcs. | 2,570 | 4,192 | 157 | D | F | 11 | 5 | 1980 |
| 100. | **Majiq** Redmond, WA<br>Develops production-mgmt. software systs. | 2,556 | 8,073 | 304 | A | B | 29 | 5 | 1980 |
| 101. | **Step Ahead Investments** (79) West Sacramento, CA<br>Operates retail variety stores | 2,531 | 10,680 | 406 | D | F | 164 | 8 | 1983 |
| 102. | **Trawick & Associates** Bethesda, MD<br>Provides consulting & software dvlpmt. svcs. | 2,494 | 2,646 | 102 | D | C | 70 | 6 | 1985 |
| 103. | **Porter McLeod** Denver, CO<br>Provides general-contracting svcs. | 2,487 | 22,272 | 861 | D | D | 170 | 5 | 1985 |
| 104. | **Peripheral Land** Fremont, CA<br>Integrates mass-storage prods. for microcomputers | 2,477 | 12,523 | 486 | D | F | 65 | 3 | 1985 |
| 105. | **Boat Sales** Indianapolis, IN<br>Sells boats, motors, & trailers | 2,454 | 8,172 | 320 | D | D | 35 | 5 | 1984 |
| 106. | **Chicos** (69) Fort Myers, FL<br>Sells women's apparel | 2,439 | 11,732 | 462 | B | C | 215 | 9 | 1983 |
| 107. | **Claren Business Centers** (154) Exton, PA<br>Sells computers | 2,419 | 56,234 | 2,232 | D | E | 50 | 35 | 1982 |
| 108. | **TEXCOM** Lanham, MD<br>Provides telecomm. & eng. svcs. | 2,419 | 15,392 | 611 | D | D | 120 | 30 | 1982 |
| 109. | **Dawn VME Products** Fremont, CA<br>Mfrs. & designs computer boards & components | 2,415 | 5,408 | 215 | C | C | 40 | 4 | 1985 |
| 110. | **AstroPower** Newark, DE<br>Develops photovoltaic solar cells & related prods. | 2,396 | 3,619 | 145 | B | F | 74 | 19 | 1983 |
| 111. | **Gareth Stevens** Milwaukee, WI<br>Publishes children's books | 2,393 | 7,304 | 293 | D | F | 130 | 15 | 1983 |
| 112. | **Airflow Systems** Dallas, TX<br>Mfrs. air-filtration equip. | 2,387 | 2,711 | 109 | D | F | 27 | 1 | 1985 |
| 113. | **Stonyfield Farm** Londonderry, NH<br>Mfrs. & mkts. yogurt & frozen yogurt | 2,360 | 3,567 | 145 | F | F | 43 | 3 | 1982 |
| 114. | **Banyan Systems** Westboro, MA<br>Mfrs. network computing prods. | 2,346 | 79,966 | 3,269 | D | F | 480 | 77 | 1983 |
| 115. | **Mil-Con** Orange Park, FL<br>Provides constr. svcs. on defense contracts | 2,342 | 13,432 | 550 | D | F | 103 | 20 | 1984 |
| 116. | **Citicam Video Services** (120) New York, NY<br>Supplies production svcs. | 2,310 | 2,796 | 116 | A | A | 14 | 2 | 1984 |
| 117. | **Frederick Computers Plus** Frederick, MD<br>Sells & svcs. wide-area networks & LANs | 2,309 | 62,935 | 2,612 | E | C | 150 | 11 | 1984 |
| 118. | **SCIENTECH** Idaho Falls, ID<br>Provides eng. & mgmt. svcs. | 2,309 | 9,442 | 392 | C | C | 100 | 13 | 1983 |
| 119. | **Artisoft** (39) Tucson, AZ<br>Develops & mkts. LAN hardware & software | 2,275 | 21,187 | 892 | A | C | 95 | 2 | 1982 |
| 120. | **Pueblo Broadcasting** Houston, TX<br>Provides Spanish-language TV programming | 2,252 | 6,397 | 272 | C | F | 68 | 1 | 1984 |
| 121. | **Marine Shale Processors** St. Rose, LA<br>Decontaminates hazardous waste | 2,249 | 41,639 | 1,773 | B | F | 340 | 40 | 1984 |
| 122. | **Eurostar** Los Angeles, CA<br>Sells & distr. athletic shoes | 2,243 | 43,694 | 1,865 | D | D | 78 | 5 | 1984 |
| 123. | **Trinity Products** (74) Linden, NJ<br>Mfrs. & distr. radio-control-model auto parts | 2,237 | 10,585 | 453 | D | D | 28 | 2 | 1983 |
| 124. | **SDS Development Group** Landover, MD<br>Develops real estate | 2,213 | 103,318 | 4,467 | D | D | 225 | 32 | 1972 |
| 125. | **Synetics** Wakefield, MA<br>Provides high-tech systs.-eng. svcs. | 2,197 | 18,420 | 802 | D | D | 222 | 14 | 1984 |
| 126. | **ExecuTrain** Atlanta, GA<br>Provides computer training for businesspeople | 2,180 | 4,743 | 208 | F | F | 56 | 8 | 1984 |
| 127. | **Metters Industries** McLean, VA<br>Provides eng. & technical-support svcs. | 2,153 | 10,072 | 447 | D | D | 175 | 6 | 1981 |
| 128. | **Discas** Waterbury, CT<br>Mfrs. & distr. plastic & rubber compounds | 2,148 | 2,742 | 122 | C | C | 9 | 2 | 1983 |
| 129. | **American Fashion Jewels** South San Francisco, CA<br>Sells costume jewelry | 2,145 | 7,230 | 322 | D | C | 100 | 2 | 1984 |
| 130. | **Diversified Technology & Svcs. of Va.** Hampton, VA<br>Provides contract administrative & mgmt. svcs. | 2,145 | 3,255 | 145 | D | D | 150 | 10 | 1982 |

*A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

PHOTOGRAPH: CHARLES FREEMAN

**INC. 500**

RANK

# 136
## WILLIAM GINN
## Resource Conservation Services

*"I do sometimes miss the informality of the early years, working on dead reckoning—the nautical term for navigating by the seat of your pants."*

■

### THE COMPANY

Ginn was operating a farm in Maine part-time and asked a paper company if he could have some of its wood ash for fertilizer. The company, which had been paying to dump the ash, asked if Ginn wanted all 40,000 tons. Soon he arranged for other farmers to take the ash as well; eventually he had a company that expanded into commercial recycling, composting, and wastewater treatment.

"In truth," says Ginn, "I think we're all astonished at how well RCS has performed."

### THE FOUNDER

Ginn spent 10 years at the Maine Audubon Society, 6 as executive director, taking the budget from $90,000 to $1.5 million. "I think of Audubon as my first start-up."

Farming remains Ginn's first love: "It's very grounding to drive a tractor or rototill a garden or plant a crop. It's an important touchstone with the earth. I don't pretend I'm a great farmer, but it's something I enjoy."

| | Company (1989 rank) Business description | Sales growth 1985-89 % increase | '89 sales ($000) | '85 sales ($000) | Profit range* | | No. of employees | | Date founded |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | '89 | '85 | '89 | '85 | |
| **131.** | **Software Security** Stamford, CT<br>Mfrs. encryption devices | 2,144% | $3,433 | $153 | B | B | 25 | 10 | 1983 |
| **132.** | **Power Resources Operating** (158) Canton, OH<br>Drills for gas & oil; mkts. natural gas | 2,143 | 13,904 | 620 | D | F | 9 | 10 | 1981 |
| **133.** | **Gupta Technologies** Menlo Park, CA<br>Develops & distr. database-mgmt. systs. | 2,091 | 7,603 | 347 | D | D | 82 | 5 | 1984 |
| **134.** | **Comsys Technical Services** (381) Rockville, MD<br>Provides software programming & eng. svcs. | 2,073 | 20,495 | 943 | D | D | 315 | 38 | 1979 |
| **135.** | **ATV** Cleveland, OH<br>Distr. computers & point-of-sale equip. | 2,068 | 13,180 | 608 | D | F | 41 | 11 | 1980 |
| **136.** | **Resource Conservation Svcs.** (157) Yarmouth, ME<br>Provides recycling-mgmt. & consulting svcs. | 2,047 | 6,613 | 308 | D | D | 73 | 10 | 1983 |
| **137.** | **HI-TECH Cable Connection** Reading, PA<br>Distr. specialty value-added electronic prods. | 2,044 | 8,298 | 387 | D | F | 35 | 3 | 1985 |
| **138.** | **Turbine Consultants** Milwaukee, WI<br>Provides technical & repair svcs. to utility cos. | 2,029 | 3,258 | 153 | A | F | 11 | 2 | 1984 |
| **139.** | **Welcom Software Technology** (47) Houston, TX<br>Mfrs. project-mgmt. software | 2,021 | 6,067 | 286 | B | B | 60 | 4 | 1984 |
| **140.** | **Florida Fulfillment** (189) Miami, FL<br>Provides telemkt. & database-mgmt. svcs. | 2,012 | 8,785 | 416 | C | C | 115 | 15 | 1982 |
| **141.** | **FRWF** (145) Parsippany, NJ<br>Provides advertising & PR svcs. | 2,009 | 12,189 | 578 | A | C | 14 | 5 | 1980 |
| **142.** | **Logistic Systems Architects** (25) Sacramento, CA<br>Provides logistics-eng. svcs. | 2,000 | 21,340 | 1,016 | E | A | 307 | 40 | 1983 |
| **143.** | **De-Tec Anesthesia Detection Svcs.** Syracuse, NY<br>Sells & svcs. anesthesia equip. | 1,989 | 2,570 | 123 | B | D | 6 | 2 | 1981 |
| **144.** | **S-Mos Systems** San Jose, CA<br>Mkts. & sells semiconductors | 1,978 | 122,901 | 5,915 | D | F | 210 | 35 | 1983 |
| **145.** | **Classic Business Forms & Envelopes** Houston, TX<br>Distr. business forms | 1,957 | 2,078 | 101 | C | P | 14 | 4 | 1984 |
| **146.** | **H.D. Vest** Irving, TX<br>Provides finan. prods. & svcs. | 1,956 | 11,881 | 578 | F | F | 70 | 5 | 1983 |
| **147.** | **Metropolitan Travel** Seattle, WA<br>Provides travel svcs. | 1,954 | 10,332 | 503 | D | F | 24 | 4 | 1985 |
| **148.** | **Information Publishing** Houston, TX<br>Provides publishing & trade-show-mgmt. svcs. | 1,954 | 2,711 | 132 | C | E | 22 | 2 | 1985 |
| **149.** | **American Arms** North Kansas City, MO<br>Imports & mfrs. sporting firearms | 1,948 | 4,895 | 239 | D | A | 21 | 4 | 1982 |
| **150.** | **Heritage Windows** Monroe, NC<br>Mfrs. decorative windows | 1,939 | 7,157 | 351 | C | C | 132 | 13 | 1984 |
| **151.** | **Franklin International Institute** Salt Lake City, UT<br>Produces life-planning seminars & prods. | 1,922 | 30,053 | 1,486 | D | F | 418 | 21 | 1984 |
| **152.** | **ECCS** (110) Tinton Falls, NJ<br>Sells computer systs. & periph. | 1,921 | 29,511 | 1,460 | D | D | 105 | 25 | 1980 |
| **153.** | **Recom Technologies** San Jose, CA<br>Develops eng. & information systs. | 1,915 | 6,930 | 344 | C | D | 94 | 5 | 1980 |
| **154.** | **Kenda Systems** Salem, NH<br>Provides temporary computer-programming svcs. | 1,914 | 11,521 | 572 | F | D | 88 | 4 | 1984 |
| **155.** | **Plastronics Plus** East Troy, WI<br>Custom plastic injection molder | 1,909 | 3,014 | 150 | D | D | 65 | 5 | 1985 |
| **156.** | **Hydraulics Engineering** Orange Park, FL<br>Mfrs. & distr. hydraulic hose assemblies | 1,902 | 13,916 | 695 | F | F | 205 | 30 | 1983 |
| **157.** | **National Rehabilitation Centers** Brentwood, TN<br>Operates outpatient medical rehab. centers | 1,893 | 9,708 | 487 | F | F | 160 | 30 | 1985 |
| **158.** | **Comlink Network Services** Auburn, MA<br>Provides computer & comm. networking svcs. | 1,887 | 4,650 | 234 | D | F | 75 | 9 | 1985 |
| **159.** | **Partnership Group** Lansdale, PA<br>Provides child- & elder-care referral svcs. | 1,882 | 2,834 | 143 | C | F | 41 | 8 | 1982 |
| **160.** | **Sigma Construction** Fayetteville, NC<br>Provides general-contracting svcs. | 1,870 | 7,880 | 400 | D | C | 36 | 12 | 1984 |
| **161.** | **PHARMACO** Austin, TX<br>Provides clinical testing of pharmaceuticals | 1,854 | 13,030 | 667 | C | C | 194 | 30 | 1983 |
| **162.** | **Apex Computer** Redmond, WA<br>Serves workstation users | 1,849 | 11,480 | 589 | B | A | 97 | 5 | 1985 |
| **163.** | **HOT 'n NOW** Kalamazoo, MI<br>Operates fast-food restaurants | 1,849 | 14,325 | 735 | B | C | 491 | 49 | 1984 |
| **164.** | **Sampler Publications** (27) St. Charles, IL<br>Provides publishing svcs. | 1,842 | 9,185 | 473 | B | C | 70 | 5 | 1984 |
| **165.** | **Essential Amenities** Fairfield, NJ<br>Sells, mkts., & mfrs. soaps & shampoos | 1,838 | 8,293 | 428 | C | C | 40 | 2 | 1985 |

*A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

PHOTOGRAPH: KINDRA CLINEFF

INC.
500

RANK

## 184

## JANET BIRNBAUM

## Janet Sand & Gravel

*"Our business is not small, but it's not real large yet. It needs expertise, possibly beyond my own. That's a difficult situation because I don't want to make a mistake."*

■

### THE COMPANY

The company, Birnbaum quickly emphasizes, is basic: it produces and places asphalt. In the early days the jobs were mostly driveways and parking lots. Today the company gets state, county, and municipal road work.

Its biggest obstacle? Birnbaum says it's the size and stability of competing companies. "I've tried to diversify to things like putting underground water mains in, to allow me to not be so dependent on the road work. But to be honest, I'm not sure I've really found a new niche."

### THE FOUNDER

Birnbaum grew up on a farm in Birch Run, Mich., helping with the milking and other chores. "I grew up with the mentality that you just did what had to get done." After high school she worked as a secretary at a bank, then as an office manager at a small telephone company. "But while I worked there," she recalls, "I always had visions of getting out of the position of being a subordinate."

| | Company (1989 rank)<br>Business description | Sales growth 1985-89 % increase | '89 sales ($000) | '85 sales ($000) | Profit range* '89 | Profit range* '85 | No. of employees '89 | No. of employees '85 | Date founded |
|---|---|---|---|---|---|---|---|---|---|
| **166.** | **Virginia Construction Supply** Roanoke, VA<br>Supplies construction materials | 1,832% | $3,787 | $196 | D | F | 15 | 2 | 1985 |
| **167.** | **SilverEagle Transport** Jacksonville, FL<br>Provides general commodities trucking svcs. | 1,829 | 23,935 | 1,241 | F | F | 305 | 24 | 1984 |
| **168.** | **Williams Industries** Houston, TX<br>Provides general-contracting svcs. | 1,825 | 33,154 | 1,722 | D | D | 50 | 20 | 1979 |
| **169.** | **Mobile Technology** (64) Los Angeles, CA<br>Provides medical, diagnostic, & treatment svcs. | 1,815 | 76,247 | 3,982 | D | D | 440 | 34 | 1983 |
| **170.** | **Perimeter Maintenance** Atlanta, GA<br>Provides contract janitorial svcs. | 1,813 | 4,342 | 227 | D | C | 250 | 3 | 1985 |
| **171.** | **Wrenn Insurance Agency** Lenexa, KS<br>Sells commercial & personal insurance | 1,809 | 8,457 | 443 | B | D | 86 | 7 | 1896 |
| **172.** | **Rockford Industries** Santa Ana, CA<br>Leases medical equip. | 1,808 | 16,082 | 843 | D | D | 31 | 4 | 1984 |
| **173.** | **Rockford** Tempe, AZ<br>Mfrs. car- & home-audio electronics | 1,796 | 40,847 | 2,154 | C | D | 524 | 27 | 1980 |
| **174.** | **Genesis Health Ventures** Kennett Square, PA<br>Provides geriatric health svcs. | 1,794 | 113,738 | 6,005 | D | F | 2,900 | 780 | 1985 |
| **175.** | **Matthew Outdoor Advertising** Parsippany, NJ<br>Owns outdoor-advertising billboards | 1,785 | 7,483 | 397 | A | A | 25 | 1 | 1982 |
| **176.** | **Victor Business Systems** Memphis, TN<br>Sells office supplies & furn. to health-care cos. | 1,779 | 1,917 | 102 | D | F | 23 | 3 | 1985 |
| **177.** | **Integrated Systems Development** Holland, MI<br>Integrates large-scale computer systs. | 1,762 | 2,458 | 132 | F | A | 34 | 7 | 1985 |
| **178.** | **Pearl's Kitchen** (220) Detroit, MI<br>Distr. full-line food svcs. | 1,749 | 4,604 | 249 | F | D | 9 | 5 | 1979 |
| **179.** | **Raima** Bellevue, WA<br>Designs & mkts. database & utilities software | 1,726 | 3,981 | 218 | D | B | 43 | 5 | 1982 |
| **180.** | **Triax Communications** Denver, CO<br>Operates cable network | 1,725 | 66,151 | 3,625 | F | F | 592 | 62 | 1982 |
| **181.** | **SIR Group** (200) Dallas, TX<br>Provides insurance sales & svcs. | 1,703 | 19,907 | 1,104 | C | D | 75 | 16 | 1983 |
| **182.** | **Network Compatibility Group** Columbus, OH<br>Develops LAN equip. | 1,688 | 2,986 | 167 | B | C | 14 | 2 | 1985 |
| **183.** | **Multisoft** Beaverton, OR<br>Develops & mkts. PC utility software | 1,687 | 3,180 | 178 | A | F | 20 | 1 | 1982 |
| **184.** | **Janet Sand & Gravel** (89) Midland, MI<br>Produces asphalt & sells gravel | 1,686 | 3,215 | 180 | D | A | 36 | 17 | 1983 |
| **185.** | **Techstaff** Milwaukee, WI<br>Provides contract eng. svcs. | 1,669 | 8,333 | 471 | B | C | 23 | 5 | 1985 |
| **186.** | **Innovative Designs** Roseville, MI<br>Distr. aftermarket body parts | 1,665 | 4,590 | 260 | D | C | 13 | 3 | 1982 |
| **187.** | **Future Domain** Irvine, CA<br>Mfrs. adapters & software prods. for PCs | 1,663 | 10,205 | 579 | C | F | 65 | 8 | 1984 |
| **188.** | **Metcal** Menlo Park, CA<br>Develops proprietary heating technology | 1,662 | 8,633 | 490 | F | F | 86 | 34 | 1982 |
| **189.** | **PW Paper** Gaithersburg, MD<br>Distr. paper & office furn. | 1,662 | 3,946 | 224 | C | C | 9 | 3 | 1985 |
| **190.** | **Oreman Sales** Kenner, LA<br>Distr. computer hardware, software, & accessories | 1,660 | 36,467 | 2,072 | D | D | 35 | 7 | 1980 |
| **191.** | **Mortgage & Finan. Personnel Svcs.** Encino, CA<br>Provides employment svcs. for banking industry | 1,658 | 2,285 | 130 | B | A | 5 | 3 | 1984 |
| **192.** | **RANPAC Engineering** Temecula, CA<br>Provides eng., land-planning, & arch. svcs. | 1,646 | 9,902 | 567 | D | D | 200 | 10 | 1976 |
| **193.** | **Micro Technology** Anaheim, CA<br>Mfrs. & distr. data-storage & backup systs. | 1,624 | 54,458 | 3,158 | B | D | 200 | 40 | 1979 |
| **194.** | **Dana Innovations** San Clemente, CA<br>Mfrs. in-wall speakers & related prods. | 1,615 | 5,935 | 346 | D | F | 26 | 5 | 1983 |
| **195.** | **DSI Insurance Services** San Francisco, CA<br>Sells insurance | 1,607 | 4,200 | 246 | A | A | 50 | 5 | 1985 |
| **196.** | **Cape Fear Insulation** (115) Wilmington, NC<br>Provides insulation-contracting svcs. | 1,601 | 3,350 | 197 | C | C | 85 | 24 | 1984 |
| **197.** | **Cone Software Laboratory** Boothwyn, PA<br>Develops custom software | 1,572 | 1,973 | 118 | C | F | 27 | 2 | 1983 |
| **198.** | **CLONTECH Laboratories** Palo Alto, CA<br>Develops genetic-eng. research prods. | 1,564 | 4,109 | 247 | D | D | 43 | 6 | 1984 |
| **199.** | **City Machine Technologies** Youngstown, OH<br>Provides elect. & mechanical industrial svcs. | 1,555 | 2,863 | 173 | C | B | 49 | 3 | 1985 |
| **200.** | **S. Cohen & Associates** (265) McLean, VA<br>Provides energy- & environmental-consulting svcs. | 1,551 | 5,382 | 326 | D | B | 30 | 4 | 1981 |

*A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

PHOTOGRAPH: MIKE DITZ

| Company (1989 rank)<br>Business description | Sales growth 1985-89 % increase | '89 sales ($000) | '85 sales ($000) | Profit range* |  | No. of employees |  | Date founded |
|---|---|---|---|---|---|---|---|---|
|  |  |  |  | '89 | '85 | '89 | '85 |  |
| **201. Secret Identitee Merchandising** Los Angeles, CA<br>Produces advertising specialties | 1,547% | $2,157 | $131 | D | F | 13 | 2 | 1984 |
| **202. Control Solutions** Pasadena, TX<br>Resells pest-control, pool, & pet supplies | 1,545 | 2,253 | 137 | C | F | 20 | 4 | 1985 |
| **203. Ambitech Engineering** (128) Glen Ellyn, IL<br>Provides construction eng. svcs. | 1,544 | 12,031 | 732 | C | D | 180 | 14 | 1982 |
| **204. Plourde Computer Services** San Ramon, CA<br>Develops point-of-sale software | 1,539 | 6,048 | 369 | D | C | 43 | 8 | 1983 |
| **205. Seawood Homes** Edmonds, WA<br>Develops & builds single-family houses | 1,538 | 4,864 | 297 | D | F | 16 | 2 | 1985 |
| **206. Rizzo Associates** (188) Natick, MA<br>Provides eng.- & environmental-consulting svcs. | 1,531 | 5.563 | 341 | D | D | 85 | 25 | 1983 |
| **207. Devon Direct Mkt. & Advertising** (6) Malvern, PA<br>Provides advertising svcs. | 1,525 | 52,099 | 3.206 | C | D | 76 | 8 | 1983 |
| **208. NSS** (85) Bedford, NH<br>Supplies branch automation systs. to banks | 1,523 | 16,248 | 1,001 | F | A | 67 | 13 | 1983 |
| **209. Carpenter HealthCare Systs.** (31) Maryland Hts., MO<br>Provides health-care mkt. & mgmt. svcs. | 1,511 | 9,536 | 592 | D | F | 125 | 3 | 1984 |
| **210. Arnet** (52) Nashville, TN<br>Mfrs. & sells expansion boards for computers | 1,510 | 9,453 | 587 | D | F | 56 | 13 | 1983 |
| **211. Wesson, Taylor, Wells & Assoc.** (130) Charlotte, NC<br>Provides computer software & consulting svcs. | 1,500 | 8,095 | 506 | D | F | 160 | 10 | 1980 |
| **212. Tri-County Security** Ferndale, MI<br>Provides security & investigation svcs. | 1,483 | 2,739 | 173 | D | F | 326 | 31 | 1984 |
| **213. NCO Financial Systems** (245) Blue Bell, PA<br>Collects delinquent & overdue accounts receivable | 1,481 | 2,197 | 139 | B | D | 38 | 3 | 1926 |
| **214. Project Design Systems** Arlington, VA<br>Provides eng.-, mgmt.- & computer-consulting svcs. | 1,480 | 2,433 | 154 | F | F | 55 | 10 | 1985 |
| **215. RPM Rent-a-Car** (84) Inglewood, CA<br>Rents & sells autos & trucks | 1,478 | 15,843 | 1,004 | E | D | 315 | 5 | 1982 |
| **216. Salem Screen Printers** (262) Salem, NH<br>Mfrs. & distr. sportswear | 1,475 | 28,919 | 1,836 | C | D | 202 | 31 | 1980 |
| **217. Corrosion Technology** Green Bay, WI<br>Produces corrosion-protection systs. & svcs. | 1,472 | 3,207 | 204 | C | F | 16 | 2 | 1985 |
| **218. DIANON Systems** (16) Stratford, CT<br>Provides prods. & data svcs. to physicians | 1,470 | 16,356 | 1,042 | D | F | 146 | 48 | 1983 |
| **219. Cambridge Career Products** South Charleston, WV<br>Sells instructional materials by mail order | 1,466 | 3,053 | 195 | D | F | 20 | 9 | 1980 |
| **220. Bulk International** (171) Troy, MI<br>Sells candy, nuts, & gifts in bulk | 1,465 | 7,841 | 501 | E | F | 57 | 8 | 1983 |
| **221. Network Information Systems** Southfield, MI<br>Provides computer svcs. & facilities-mgmt. svcs. | 1,465 | 4,319 | 276 | E | A | 72 | 9 | 1984 |
| **222. Softcopy** Orem, UT<br>Duplicates, assembles, & ships software | 1,462 | 79,684 | 5,100 | A | D | 477 | 35 | 1984 |
| **223. Command Systems** Hartford, CT<br>Develops business automation systs. | 1,461 | 3,246 | 208 | D | F | 75 | 10 | 1985 |
| **224. Softmart** (23) Exton, PA<br>Resells computer software & periph. | 1,460 | 55,776 | 3,576 | D | F | 158 | 23 | 1982 |
| **225. Nantucket** Los Angeles, CA<br>Develops & distr. software | 1,456 | 14,313 | 920 | D | F | 150 | 40 | 1984 |
| **226. Reliable Cartage** Bedford Park, IL<br>Provides local trucking svcs. | 1,450 | 2,728 | 176 | D | E | 68 | 4 | 1976 |
| **227. Dickens Data Systems** Norcross, GA<br>Mfrs., sells, & distr. periph. | 1,440 | 14,183 | 921 | B | C | 62 | 13 | 1981 |
| **228. JJW Construction** Plantation, FL<br>Provides general-contracting svcs. | 1,439 | 42,341 | 2,752 | C | E | 240 | 45 | 1984 |
| **229. Information America** (93) Atlanta, GA<br>Provides on-line information for commercial transactions | 1,438 | 10,800 | 702 | D | F | 93 | 25 | 1982 |
| **230. RailTex** (464) San Antonio, TX<br>Operates short-line freight railroads | 1,438 | 16,582 | 1,078 | C | C | 135 | 17 | 1977 |
| **231. Drennen Forestry Services** Hayden, AL<br>Supplies forestry raw-material prods. | 1,437 | 4,597 | 299 | D | F | 18 | 4 | 1983 |
| **232. Knight Floor Covering** Newark, CA<br>Sells & installs floor coverings | 1,436 | 1,705 | 111 | C | C | 19 | 4 | 1985 |
| **233. Government Technology Svcs.** (155) Chantilly, VA<br>Resells computer hardware, software, & periph. | 1,427 | 277,740 | 18,185 | D | D | 500 | 87 | 1983 |
| **234. National Seminars** Overland Park, KS<br>Provides training & publishes related materials | 1,426 | 30,310 | 1,986 | C | C | 150 | 25 | 1984 |
| **235. Prestige Leather Creations** (272) Vernon, CA<br>Mfrs. fashion belts | 1,411 | 19,384 | 1,283 | C | D | 350 | 50 | 1974 |

*A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

RANK

## 232

## DAVID FERN AND JACK KNIGHT

## Knight Floor Covering

*"Going into my first business, I didn't know anything about survival. I was very naïve. This time I'm much more cautious."*

—David Fern

■

### THE COMPANY

How do you find customers for floor covering? One way is to pursue the residential market, bidding on each job individually. Then there's Knight Floor's way: work with property managers who oversee 3 to 10 buildings with 200 to 500 units each. Knight has concentrated entirely on relationships with those managers, offering different styles and colors for each apartment complex, and immediate job turnarounds.

Another edge: Knight Floor trims its costs of materials 6% by paying bills within 10 days, a savings it can pass on to customers.

### THE FOUNDERS

After growing up in a middle-class neighborhood in San Lorenzo, Calif., Fern taught for seven years, then became a building developer from 1977 to 1981. His fortunes soared, then he lost everything. A year and a half later he and Jack Knight started this business. Knight handles the technical end, while Fern manages the administration.

PHOTOGRAPH: CHRISTOPHER SPRINGMANN

| | Company (1989 rank)<br>Business description | Sales growth 1985-89 % increase | '89 sales ($000) | '85 sales ($000) | Profit range* | | No. of employees | | Date founded |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | '89 | '85 | '89 | '85 | |
| **236.** | **Boston Popcorn** Newton, MA<br>Mfrs. & distr. snack foods | 1,408% | $6,334 | $420 | C | F | 40 | 5 | 1984 |
| **237.** | **Tralico Leasing** (356) Greensboro, NC<br>Rents, leases, & sells semitrailers | 1,405 | 7,433 | 494 | D | F | 42 | 2 | 1983 |
| **238.** | **Potpourri Foundry** Huntington Beach, CA<br>Mfrs. potpourris & related prods. | 1,402 | 3,694 | 246 | F | A | 70 | 7 | 1984 |
| **239.** | **Allsup & Associates** Belleville, IL<br>Provides Social Security consulting svcs. | 1,395 | 2,317 | 155 | A | A | 33 | 1 | 1983 |
| **240.** | **WordPerfect** (118) Orem, UT<br>Mfrs. & sells computer software | 1,390 | 276,044 | 18,522 | A | B | 1,612 | 199 | 1979 |
| **241.** | **STATISTICA** (70) Clarksville, MD<br>Provides software & eng. svcs. | 1,388 | 20,209 | 1,358 | D | D | 234 | 22 | 1977 |
| **242.** | **Northwest Pine Products** Bend, OR<br>Produces wood chips for pulp & paper industry | 1,386 | 5,900 | 397 | C | F | 18 | 6 | 1984 |
| **243.** | **Judicial Arbitration & Mediation** Orange, CA<br>Provides dispute-resolution svcs. | 1,378 | 11,541 | 781 | D | F | 80 | 5 | 1979 |
| **244.** | **Quintron** (44) Chantilly, VA<br>Designs & mfrs. flight simulators | 1,365 | 25,418 | 1,735 | C | C | 165 | 21 | 1984 |
| **245.** | **Datacomm Networks** Tampa, FL<br>Assembles & installs computer comm. & cables | 1,361 | 1,519 | 104 | C | B | 31 | 3 | 1984 |
| **246.** | **Synergics** Annapolis, MD<br>Develops renewable-energy projects | 1,360 | 18,250 | 1,250 | F | D | 125 | 5 | 1980 |
| **247.** | **Quality Homes** Clarks Summit, PA<br>Provides residential & commercial constr. svcs. | 1,352 | 2,221 | 153 | D | A | 11 | 4 | 1985 |
| **248.** | **Challenger & Hunt** St. Louis, MO<br>Provides physician- & executive-search svcs. | 1,351 | 2,336 | 161 | A | A | 40 | 2 | 1985 |
| **249.** | **Computer Parts & Services** Plymouth, MN<br>Sells, maintains, & repairs computers | 1,351 | 8,341 | 575 | D | D | 51 | 11 | 1983 |
| **250.** | **Mgmt. Assistance Corp. of America** El Paso, TX<br>Provides solutions to scientific & mgmt. problems | 1,347 | 12,070 | 834 | D | D | 145 | 40 | 1979 |
| **251.** | **GMIS** Malvern, PA<br>Develops health-care cost-containment software | 1,346 | 4,034 | 279 | D | F | 40 | 15 | 1984 |
| **252.** | **Stone County Ironworks** Mountain View, AR<br>Designs & mfrs. iron prods. | 1,342 | 2,538 | 176 | C | B | 110 | 32 | 1979 |
| **253.** | **Loredan Biomedical** (41) Davis, CA<br>Mfrs. diagnostic & therapeutic equip. | 1,339 | 16,941 | 1,177 | F | F | 72 | 18 | 1984 |
| **254.** | **Acoustic Imaging Technologies** (295) Tempe, AZ<br>Mfrs. medical diagnostic ultrasound equip. | 1,328 | 14,579 | 1,021 | F | F | 291 | 19 | 1983 |
| **255.** | **J.D. Fields & Co.** Houston, TX<br>Sells steel pipe, steel-sheet piling, & rail prods. | 1,323 | 32,955 | 2,316 | D | D | 15 | 5 | 1985 |
| **256.** | **JSA Healthcare** Columbia, MD<br>Provides health svcs. | 1,315 | 21,436 | 1,515 | D | F | 438 | 16 | 1984 |
| **257.** | **Am-Pro Protective Agency** Columbia, SC<br>Provides security, detective, & courier svcs. | 1,313 | 19,671 | 1,392 | D | D | 1,076 | 150 | 1982 |
| **258.** | **CW Systems** Austin, TX<br>Provides computer consulting svcs. | 1,313 | 6,062 | 429 | C | F | 100 | 30 | 1984 |
| **259.** | **Proteus** Albuquerque, NM<br>Develops computer systs. & systs. integration | 1,305 | 2,290 | 163 | D | C | 55 | 3 | 1980 |
| **260.** | **Liberty Technology Center** Conshohocken, PA<br>Mfrs. diagnostic signal-processing systs. | 1,301 | 5,492 | 392 | C | F | 63 | 6 | 1984 |
| **261.** | **Bulls-Eye** Lincoln, NE<br>Sells computers | 1,296 | 5,025 | 360 | D | D | 32 | 3 | 1983 |
| **262.** | **TMA Technologies** Bozeman, MT<br>Mfrs. quality-assurance instrumentation | 1,295 | 1,869 | 134 | F | C | 40 | 4 | 1984 |
| **263.** | **Dialogic Communications** (320) Franklin, TN<br>Mfrs. interactive voice-response systs. | 1,294 | 2,217 | 159 | D | F | 19 | 9 | 1982 |
| **264.** | **Painting Systems** Baton Rouge, LA<br>Provides construction svcs. | 1,289 | 6,960 | 501 | E | D | 72 | 50 | 1979 |
| **265.** | **Peer Review Analysis** Malden, MA<br>Provides health-care cost-containment programs | 1,284 | 4,248 | 307 | D | F | 56 | 10 | 1984 |
| **266.** | **KETIV Technologies** (121) Portland, OR<br>Mfrs. CAD/CAM/CAE systs. | 1,284 | 4,538 | 328 | D | D | 35 | 3 | 1983 |
| **267.** | **Athletic Fitters** Eden Prairie, MN<br>Sells athletic footwear & apparel | 1,276 | 3,095 | 225 | B | D | 15 | 2 | 1984 |
| **268.** | **Pentz Design Pattern & Foundry** (215) Duvall, WA<br>Produces precision aluminum sand castings | 1,274 | 1,731 | 126 | D | A | 38 | 2 | 1972 |
| **269.** | **Spectrum Human Resource Systems** Denver, CO<br>Develops, sells, & svcs. software | 1,264 | 3,179 | 233 | A | F | 40 | 10 | 1984 |
| **270.** | **Technical & Mgmt. Services** (22) Calverton, MD<br>Provides software development svcs. | 1,263 | 23,651 | 1,735 | D | D | 425 | 50 | 1982 |

*A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

RANK
## 240
## ALAN ASHTON
## WordPerfect

*"My inspiration is faith. Faith in the future, faith in people, faith from on high."*

■

### THE COMPANY

WordPerfect is one of the largest and perhaps best-known companies on the list. Based in Orem, Utah, the software design and sales company produces software for fields as varied as graphics and office automation; 1989 sales were $276 million.

The key to its success? Customer service, says Ashton. WordPerfect regularly picks up awards from the trade press for its toll-free service, with 680 operators handling 14,000 calls a *day.*

### THE FOUNDER

Ashton grew up in Salt Lake City and spent two and a half years as a missionary in Germany before graduating from the University of Utah with a Ph.D. in computer science. He taught at Brigham Young University from 1971 to 1985, stopping when the demands of the six-year-old company he'd cofounded became too great.

"It was hard on my family," he recalls. "I'd go to school early, then work, read the kids stories at dinnertime, then do more work. It was like standing on two icebergs drifting apart." Ashton's current goal: to spend more time with his wife and 12 children.

PHOTOGRAPH: KENT MILES

|  | Company (1989 rank)<br>Business description | Sales growth 1985-89 % increase | '89 sales ($000) | '85 sales ($000) | Profit range* |  | No. of employees |  | Date founded |
|---|---|---|---|---|---|---|---|---|---|
|  |  |  |  |  | '89 | '85 | '89 | '85 |  |
| **271.** | **Reserves Network** Rocky River, OH<br>Provides temporary- & permanent-help svcs. | 1,262% | $3,978 | $292 | E | F | 32 | 5 | 1984 |
| **272.** | **Kapp Construction** Springfield, OH<br>Provides general-contracting svcs. | 1,254 | 5,526 | 408 | D | F | 60 | 12 | 1985 |
| **273.** | **Microtest** Phoenix, AZ<br>Designs, mfrs., & mkts. LAN prods. | 1,249 | 3,696 | 274 | A | C | 25 | 8 | 1984 |
| **274.** | **LUGO Construction** Federal Way, WA<br>Provides general-contracting svcs. | 1,247 | 10,813 | 803 | D | B | 20 | 4 | 1978 |
| **275.** | **Computext** Houston, TX<br>Develops publishing & graphic-arts software | 1,245 | 1,345 | 100 | B | F | 14 | 1 | 1982 |
| **276.** | **Alliance Imaging** La Palma, CA<br>Provides medical diagnostic svcs. | 1,240 | 39,262 | 2,931 | F | D | 192 | 35 | 1983 |
| **277.** | **Advanced Sciences** (274) Albuquerque, NM<br>Provides environmental-consulting svcs. | 1,235 | 28,405 | 2,128 | D | D | 236 | 51 | 1977 |
| **278.** | **Spectra** Clarksburg, MD<br>Mfrs. printed circuit boards | 1,233 | 5,864 | 440 | B | F | 76 | 14 | 1985 |
| **279.** | **Princeton Review/NJ, Bos. & Pitt.** Princeton, NJ<br>Provides test-preparation svcs. | 1,232 | 2,904 | 218 | E | E | 13 | 2 | 1985 |
| **280.** | **AFS Window & Door** Anaheim, CA<br>Mfrs., distr., & sells wooden windows & doors | 1,231 | 10,396 | 781 | D | F | 40 | 8 | 1985 |
| **281.** | **A.M. Express** Escanaba, MI<br>Provides heavy trucking svcs. | 1,227 | 1,367 | 103 | D | B | 26 | 3 | 1985 |
| **282.** | **Hygienetics** Boston, MA<br>Provides eng. & consulting svcs. | 1,219 | 21,600 | 1,637 | C | C | 300 | 50 | 1982 |
| **283.** | **Mike Madrid** West Lafayette, IN<br>Rents & sells barricades to highway contractors | 1,218 | 1,331 | 101 | C | B | 16 | 1 | 1984 |
| **284.** | **Intercredit** Atlanta, GA<br>Leases & finances aircraft | 1,216 | 54,645 | 4,152 | D | A | 19 | 2 | 1984 |
| **285.** | **MediQual Systems** (77) Westboro, MA<br>Provides health-care information & software | 1,212 | 12,532 | 955 | C | F | 160 | 30 | 1980 |
| **286.** | **BC Consultants** Vienna, VA<br>Provides eng., surveying, & landscape-arch. svcs. | 1,211 | 3,133 | 239 | F | A | 63 | 9 | 1985 |
| **287.** | **Gale Group** (231) Apopka, FL<br>Mfrs. plastic lawn & garden prods. | 1,211 | 27,055 | 2,064 | D | F | 320 | 34 | 1981 |
| **288.** | **Analytical Med. Enterprises** (75) Baton Rouge, LA<br>Provides contract nursing svcs. | 1,208 | 11,639 | 890 | D | D | 210 | 18 | 1983 |
| **289.** | **Trigen Energy** White Plains, NY<br>Provides heating & cooling for urban buildings | 1,206 | 5,591 | 428 | F | F | 138 | 7 | 1980 |
| **290.** | **Martin-Logan** (156) Lawrence, KS<br>Designs & mfrs. electrostatic stereo speakers | 1,206 | 3,525 | 270 | C | B | 35 | 8 | 1983 |
| **291.** | **MicroControl Systems** Venetia, PA<br>Designs & mfrs. process-control systs. | 1,180 | 1,882 | 147 | B | F | 26 | 6 | 1982 |
| **292.** | **Dental Service** Birmingham, AL<br>Sells dental supplies & equip. | 1,180 | 1,510 | 118 | D | F | 14 | 4 | 1985 |
| **293.** | **Shawmut Design & Construction** (191) Boston, MA<br>Provides general-contracting svcs. | 1,179 | 31,826 | 2,488 | D | E | 160 | 40 | 1982 |
| **294.** | **Pacific Access Computers** Rancho Cordova, CA<br>Integrates computer solutions | 1,177 | 16,094 | 1,260 | A | A | 23 | 3 | 1985 |
| **295.** | **Vitelic** (15) San Jose, CA<br>Designs, mfrs., & mkts. semiconductor memories | 1,174 | 73,571 | 5,773 | A | E | 339 | 50 | 1983 |
| **296.** | **Project Development Group** (32) Monroeville, PA<br>Provides asbestos-abatement svcs. | 1,170 | 19,088 | 1,503 | C | C | 300 | 30 | 1984 |
| **297.** | **Fitec International** Memphis, TN<br>Provides import & export trading svcs. | 1,165 | 7,918 | 626 | C | F | 6 | 2 | 1984 |
| **298.** | **Smith/Crockett** Nevada City, CA<br>Leases construction equip. & sells lumber | 1,159 | 2,128 | 169 | B | B | 30 | 7 | 1984 |
| **299.** | **Access TcA** Whitinsville, MA<br>Provides trade-show-exhibit svcs. | 1,159 | 2,606 | 207 | C | D | 32 | 10 | 1985 |
| **300.** | **BioGenex Laboratories** San Ramon, CA<br>Develops & mfrs. tumor-diagnosis prods. | 1,146 | 2,343 | 188 | D | F | 37 | 9 | 1981 |
| **301.** | **Chariot Eagle** (51) Ocala, FL<br>Mfrs. recreational vehicles | 1,145 | 16,780 | 1,348 | D | D | 165 | 25 | 1984 |
| **302.** | **Fibertek** Herndon, VA<br>Provides R&D for lasers & laser radar | 1,143 | 3,790 | 305 | C | C | 38 | 4 | 1983 |
| **303.** | **Sun Pharmaceuticals** Pompano Beach, FL<br>Mfrs. & distr. skin- & health-care prods. | 1,141 | 11,099 | 894 | A | A | 72 | 5 | 1981 |
| **304.** | **C.G. Enterprises** (131) Southfield, MI<br>Sells & svcs. microcomputer prods. | 1,140 | 9,464 | 763 | E | D | 35 | 5 | 1982 |
| **305.** | **Provista Software Int'l** San Jose, CA<br>Provides software consulting & training svcs. | 1,138 | 2,179 | 176 | D | B | 21 | 2 | 1985 |

*A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

RANK
274

### ADRIAN LUGO
### LUGO Construction

*"Without an education, I am a Mexican farm worker. I see no difference between me and them, except I've learned to ask the right questions."*

■

### THE COMPANY

Lugo and his wife were renovating their house one day in 1974 when a developer inquired how much they wanted for it. An hour later they'd sold the $35,000 house for $70,000 and were in business.

The company started as a general contractor on residential properties and now oversees commercial construction. It has 8a status, which allows it to bid for jobs set aside for minorities.

### THE FOUNDER

Lugo's childhood was spent in rural Texas, as his Mexican-born father found work selling vegetables, fixing cars, and welding. "He was very strict—excellence was pounded into us," says Lugo.

In 1967 Lugo was drafted and sent to Vietnam, where he was a helicopter gunner. Later he attended the University of California at Irvine, where he graduated cum laude with a degree in art.

"Vietnam showed me how amazing the United States is. The capitalist system—which in the '60s became a dirty word—means to me that you can develop capital and partake of the system."

PHOTOGRAPH RICH FRISHMAN

INC.
500

RANK
330
**BARBARA BEDNAR**
**Environmental Control Systems**

*"All of a sudden there's the day you wake up and realize, Hey, I really do know what I'm talking about. I have learned."*

■

### THE COMPANY

Bednar's father founded ECS in 1969 as an adjunct to his boiler-installation business. He wanted to develop a new fuel additive that would dissolve paraffin and sludge-tank buildup. For the next five years ECS distributed the additive. Sales plateaued at about $250,000.

The company hit its real growth cycle when it began taking on service work: cleaning or removing the tanks of clients, testing and removing contaminated soil, remediating groundwater, and testing tanks.

### THE OWNER

Bednar never went to college. Instead, she married at 18, had a child, got divorced, and began working as an administrative assistant, then a real estate agent, before coming to ECS in 1975. "I had worked summers for my father as long as I can remember, and I always loved it." She became president in 1984 and was given enough stock over the past two years to make her the controlling owner.

| | Company (1989 rank)<br>Business description | Sales growth 1985-89 % increase | '89 sales ($000) | '85 sales ($000) | Profit range* | | No. of employees | | Date founded |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | '89 | '85 | '89 | '85 | |
| 306. | **Performance Technologies** East Rochester, NY<br>Mfrs. computer board prods. | 1,133% | $5,723 | $464 | A | F | 39 | 11 | 1981 |
| 307. | **D. Hilton Associates** Houston, TX<br>Provides mgmt.-consulting svcs. to credit unions | 1,127 | 1,239 | 101 | A | F | 8 | 2 | 1985 |
| 308. | **Formu-3 International** (14) Canton, OH<br>Operates & franchises weight-loss facilities | 1,126 | 21,942 | 1,790 | A | A | 242 | 50 | 1982 |
| 309. | **Coated Abrasive Products** Ramsey, MN<br>Converts abrasive cloth & paper into sandpaper | 1,126 | 1,618 | 132 | D | C | 22 | 3 | 1984 |
| 310. | **Professional Business Schools** (49) St. Louis, MO<br>Operates private career schools | 1,121 | 6,643 | 544 | F | C | 245 | 35 | 1976 |
| 311. | **Gerber Alley** (483) Norcross, GA<br>Provides health-care information systs. | 1,118 | 41,400 | 3,400 | C | F | 366 | 45 | 1983 |
| 312. | **Type Tech** Bellevue, WA<br>Svcs. office equip. & sells computer accessories | 1,114 | 3,374 | 278 | D | D | 20 | 5 | 1979 |
| 313. | **RJO Enterprises** (80) Lanham, MD<br>Provides telecomm. & records-mgmt. svcs. | 1,112 | 60,246 | 4,970 | E | D | 610 | 195 | 1979 |
| 314. | **Miaco** Englewood, CO<br>Provides software training & consulting svcs. | 1,106 | 1,520 | 126 | C | A | 22 | 2 | 1985 |
| 315. | **Digidesign** Menlo Park, CA<br>Mfrs. & mkts. editing systs. for PCs | 1,105 | 4,493 | 373 | C | C | 37 | 7 | 1984 |
| 316. | **Surgilase** Warwick, RI<br>Mfrs. & mkts. surgical lasers | 1,104 | 7,907 | 657 | F | F | 60 | 3 | 1984 |
| 317. | **Prima Communications** Rocklin, CA<br>Publishes nonfiction general trade books | 1,103 | 2,406 | 200 | C | B | 7 | 3 | 1984 |
| 318. | **Grant Wood Specialties** (122) Nampa, ID<br>Mfrs. oak doors | 1,097 | 4,465 | 373 | D | D | 91 | 25 | 1971 |
| 319. | **Routing Technology Software** (177) Vienna, VA<br>Develops & sells video routing software | 1,096 | 4,101 | 343 | A | A | 31 | 5 | 1983 |
| 320. | **Unilink Software** Jackson, WY<br>Develops, mkts., & supports accounting software | 1,093 | 2,184 | 183 | D | F | 35 | 5 | 1982 |
| 321. | **Superior Concrete** Berlin, NJ<br>Provides contracting svcs. | 1,092 | 3,243 | 272 | E | C | 57 | 11 | 1979 |
| 322. | **Benko Products** Westlake, OH<br>Mfrs. elevating platforms & industrial ovens | 1,083 | 1,644 | 139 | C | F | 5 | 1 | 1984 |
| 323. | **Red Rose Graphics** Lancaster, PA<br>Provides color-separation svcs. | 1,081 | 4,545 | 385 | D | C | 78 | 11 | 1985 |
| 324. | **Seatec** (185) Warrior, AL<br>Provides eng., technical, & office svcs. | 1,079 | 12,592 | 1,068 | D | D | 12 | 3 | 1977 |
| 325. | **U.S. Xpress** Chattanooga, TN<br>Provides interstate motor-carrier svcs. | 1,077 | 40,740 | 3,460 | D | F | 625 | 85 | 1985 |
| 326. | **Bruno Independent Living Aids** Oconomowoc, WI<br>Mfrs. wheelchair lifts for autos, trucks, & vans | 1,074 | 2,148 | 183 | D | F | 28 | 3 | 1984 |
| 327. | **AngioSystems** Stone Mountain, GA<br>Mfrs. disposable angiographic drapes & trays | 1,071 | 1,745 | 149 | C | F | 35 | 6 | 1984 |
| 328. | **Schnaubelt Shorts** Coraopolis, PA<br>Mfrs. bicycling apparel | 1,067 | 1,179 | 101 | D | F | 52 | 5 | 1983 |
| 329. | **Control Systems Engineering** Memphis, TN<br>Designs, mfrs., & sells weighing systs. | 1,066 | 1,971 | 169 | D | F | 16 | 2 | 1983 |
| 330. | **Environmental Control Systems** Broomall, PA<br>Tests & cleans contaminated soil | 1,053 | 2,871 | 249 | D | F | 9 | 3 | 1969 |
| 331. | **Industrial Health** Salt Lake City, UT<br>Provides environmental-consulting svcs. | 1,052 | 3,167 | 275 | B | E | 47 | 5 | 1980 |
| 332. | **Northeast Battery & Alternator** Millbury, MA<br>Distr. car, marine, & specialty batteries | 1,045 | 1,695 | 148 | D | F | 10 | 2 | 1985 |
| 333. | **Bryant Management** Houston, TX<br>Develops shopping centers & apartments | 1,039 | 2,427 | 213 | B | F | 25 | 1 | 1981 |
| 334. | **Bertucci's** (72) Woburn, MA<br>Operates restaurant chain | 1,036 | 19,216 | 1,691 | B | F | 800 | 130 | 1981 |
| 335. | **Sierra Amusement** Rancho Cordova, CA<br>Distr. videotapes, Nintendo, & accessories | 1,036 | 5,088 | 448 | E | C | 40 | 5 | 1981 |
| 336. | **Datacap Systems** Montgomeryville, PA<br>Mfrs. & mkts. transaction-processing systs. | 1,035 | 6,266 | 552 | C | F | 22 | 11 | 1983 |
| 337. | **Barakat & Chamberlin** (181) Oakland, CA<br>Provides economic- & mgmt.-consulting svcs. | 1,031 | 6,287 | 556 | D | A | 84 | 6 | 1982 |
| 338. | **Northwest Group** Fresno, CA<br>Provides general-contracting svcs. | 1,027 | 31,746 | 2,817 | D | F | 35 | 10 | 1981 |
| 339. | **Membrane Syst. Specialists** Wisconsin Rapids, WI<br>Mfrs. ultrafiltration for food & dairy industries | 1,021 | 1,659 | 148 | E | E | 8 | 1 | 1985 |
| 340. | **Hillside Coffee** Carmel, CA<br>Distr. & roasts coffee | 1,019 | 15,222 | 1,360 | F | C | 67 | 5 | 1978 |

*A: 16% or more; B: 11% to 15%; C: 6% to 10%; D: 1% to 5%; E: Break-even; F: Loss

PHOTOGRAPH: ERICA FRUEDENSTEIN

INC.
500

RANK
## 369
## GEORGE LUNDQUIST
## Calidad Electronics

> *"My biggest concern is the unpredictable things that could happen. I don't have any fear of* our *screwing it up."*

■

### THE COMPANY

Calidad started as a contract manufacturer of circuit boards for another start-up, DSC Communications, and eventually became that concern's principal supplier Although work for DSC still makes up 60% to 70% of Calidad's annual revenues, that's down from 95% two years ago.

The key to success, says Lundquist, has been providing quick, flexible service. "We're not doing high-volume steady stuff [for DSC]; it's low volume, with rapid changes in design. We're not doing the same thing each month. At any given time we've got 95 to 110 different products in process. Sometimes they change daily."

### THE FOUNDER

Lundquist grew up in Willmar, Minn.; his mother drove a school bus, and his father was a postal clerk. He worked for Texas Instruments and then Haggar, the apparel company, before starting his company in 1985.

His goals are straightforward: "I'm still looking for cash in the bank. I think $2 million to $2.5 million is a nice amount I could survive on."

| | Company (1989 rank)<br>Business description | Sales growth 1985-89 % increase | '89 sales ($000) | '85 sales ($000) | Profit range* | | No. of employees | | Date founded |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | '89 | '85 | '89 | '85 | |
| **341.** | **RAM Technologies** Ashland, KY<br>Provides long-distance telecomm. svcs. | 1,014% | $3,710 | $333 | C | A | 35 | 5 | 1976 |
| **342.** | **Entek** Alexandria, VA<br>Provides eng. & high-tech professional svcs. | 1,013 | 5,764 | 518 | D | F | 68 | 3 | 1980 |
| **343.** | **Business Temporary Services** Overland Park, KS<br>Provides temporary- & permanent-help svcs. | 1,007 | 2,093 | 189 | F | E | 5 | 2 | 1985 |
| **344.** | **March-Westin** (133) Morgantown, WV<br>Provides general-contracting svcs. | 1,007 | 2,723 | 246 | D | D | 20 | 6 | 1984 |
| **345.** | **EVI** (278) Columbia, MD<br>Designs & mfrs. medical & security systs. | 1,004 | 1,689 | 153 | B | F | 15 | 3 | 1983 |
| **346.** | **Securities Service Network** Knoxville, TN<br>Provides brokerage svcs. | 1,002 | 1,907 | 173 | D | E | 50 | 9 | 1983 |
| **347.** | **Team Spirit** Omaha, NE<br>Sells licensed sports apparel | 1,000 | 5,500 | 500 | B | B | 45 | 4 | 1985 |
| **348.** | **NEO** Hazelwood, NC<br>Provides asbestos-abatement svcs. | 998 | 5,062 | 461 | D | C | 47 | 5 | 1984 |
| **349.** | **Cascade Color** Portland, OR<br>Provides color-separation svcs. | 991 | 2,912 | 267 | D | F | 48 | 12 | 1985 |
| **350.** | **Bradley** Highland Heights, OH<br>Develops & sells insurance software | 987 | 1,130 | 104 | D | F | 12 | 2 | 1983 |
| **351.** | **Senior Market Sales** Omaha, NE<br>Sells insurance | 986 | 22,386 | 2,061 | D | D | 33 | 11 | 1984 |
| **352.** | **Micro Linear** San Jose, CA<br>Mfrs. & sells analog integ. circuits | 984 | 30,258 | 2,791 | C | F | 163 | 80 | 1983 |
| **353.** | **Applied Energy Services** (126) Arlington, VA<br>Owns & operates independent power-prod. facilities | 980 | 99,224 | 9,189 | D | D | 376 | 176 | 1981 |
| **354.** | **JAK Construction** Falls Church, VA<br>Provides construction & renovation svcs. | 979 | 18,608 | 1,724 | D | C | 125 | 11 | 1982 |
| **355.** | **Information Management Associates** Trumbull, CT<br>Provides mkt. & sales-support software | 979 | 2,751 | 255 | A | A | 40 | 5 | 1984 |
| **356.** | **Certified Traffic Controllers** Andover, NY<br>Mfrs. road signs & specialty road-safety prods. | 979 | 2,740 | 254 | C | D | 50 | 5 | 1983 |
| **357.** | **Mangano** (71) Visalia, CA<br>Develops shopping centers & commercial projects | 978 | 20,058 | 1,861 | D | F | 38 | 4 | 1978 |
| **358.** | **Benchmark Marketing & Consulting** Omaha, NE<br>Provides ads & mkt. svcs. for autos, RVs, & boats | 975 | 1,828 | 170 | A | A | 28 | 7 | 1984 |
| **359.** | **Eyecatcher Sportswear** El Segundo, CA<br>Designs & distr. printed sportswear | 972 | 2,981 | 278 | B | B | 8 | 2 | 1983 |
| **360.** | **Daisytek** Garland, TX<br>Distr. computer supplies & accessories | 971 | 113,013 | 10,556 | D | D | 200 | 54 | 1977 |
| **361.** | **Derma Sciences** Old Forge, PA<br>Distr. & mkts. pharmaceuticals | 969 | 1,101 | 103 | D | F | 9 | 4 | 1984 |
| **362.** | **W.H. Stoller & Associates** Portland, OR<br>Provides temporary-help svcs. | 969 | 8,431 | 789 | D | D | 52 | 19 | 1983 |
| **363.** | **LMB Microcomp./Connecting Point** Indianapolis, IN<br>Sells computers | 964 | 15,494 | 1,456 | B | B | 20 | 4 | 1980 |
| **364.** | **Myers-Holum** (469) New York, NY<br>Provides accounting & consulting svcs. | 964 | 4,150 | 390 | D | D | 60 | 10 | 1984 |
| **365.** | **Sunrider** Torrance, CA<br>Distr. health & beauty prods. | 960 | 139,179 | 13,129 | C | D | 370 | 82 | 1976 |
| **366.** | **Express Services** (97) Oklahoma City, OK<br>Franchises employment offices | 959 | 106,662 | 10,068 | D | D | 52 | 15 | 1983 |
| **367.** | **Advanced Systs. in Measure. & Evaluation** Dover, NH<br>Provides educational testing svcs. | 955 | 2,395 | 227 | C | F | 28 | 5 | 1983 |
| **368.** | **Vitronix** (108) Westboro, MA<br>Distr. VAR microcomputers | 954 | 17,305 | 1,642 | E | E | 45 | 13 | 1984 |
| **369.** | **Calidad Electronics** Edinburg, TX<br>Assembles contract electronics. | 954 | 5,226 | 496 | C | F | 382 | 25 | 1985 |
| **370.** | **Overland Data** San Diego, CA<br>Mfrs. nine-track-tape subsystems for PCs | 953 | 5,002 | 475 | C | A | 41 | 6 | 1980 |
| **371.** | **Cobb Group** Louisville, KY<br>Publishes computer software journals | 947 | 5,163 | 493 | C | E | 58 | 7 | 1984 |
| **372.** | **Community Lifecare Enterprises** Springfield, IL<br>Operates nursing & retirement homes | 945 | 28,205 | 2,699 | F | F | 1,880 | 425 | 1983 |
| **373.** | **R. Glass Landscape** Roselle, IL<br>Provides landscaping svcs. | 941 | 4,093 | 393 | B | A | 186 | 15 | 1980 |
| **374.** | **RCT International** Chicago, IL<br>Provides travel svcs. | 941 | 208,726 | 20,054 | D | D | 175 | 95 | 1983 |
| **375.** | **Interstate Insulation of America** Edina, MO<br>Provides asbestos-abatement & insulation svcs. | 939 | 8,232 | 792 | D | C | 200 | 27 | 1985 |

*A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

PHOTOGRAPH: TERRY URDAL

# INC. 500

RANK

## 393

## JOHN BERGUSON JR.

## Kingdom Tapes & Electronics

*"I thought if I expanded my business, some people who were out of work in the area wouldn't have to leave."*

■

### THE COMPANY

When Berguson started his company, in 1981, it was called the American Horse Institute and distributed his personal horse-training tapes. Because he was buying cassette tapes in bulk, he occasionally resold them to churches that recorded services for shut-ins, college students, and servicemen. In 1984 he began offering high-speed duplicating machines and printing in addition to blank tapes, and in 1986 he added video-production services. The company's customer base has expanded to include prisons, courts, and such commercial accounts as GTE, Telex, and Borden's.

### THE FOUNDER

Grandson of a Baptist minister, Berguson relies heavily on his faith, seeing his vocation as a calling to be an "evangelical horseman." In matters of management, he relies on his wife, Juanita: "I'm a terrible manager, but my wife is an excellent one, so she's the general manager. My time is supposed to be spent in advertising and marketing, but I'll jump in and try to solve any problem."

| | Company (1989 rank)<br>Business description | Sales growth 1985-89 % increase | '89 sales ($000) | '85 sales ($000) | Profit range* | | No. of employees | | Date founded |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | '89 | '85 | '89 | '85 | |
| **376.** | **dataLOK** Los Angeles, CA<br>Stores, retrieves, & manages data | 939% | $1,060 | $102 | C | F | 23 | 6 | 1984 |
| **377.** | **National Service** (161) Millersville, MD<br>Operates outpatient weight-loss centers | 939 | 2,566 | 247 | C | D | 28 | 3 | 1984 |
| **378.** | **GWA Information Systems** Waltham, MA<br>Provides consulting for computer info. systs. | 938 | 1,215 | 117 | D | B | 17 | 7 | 1984 |
| **379.** | **High Five Sportswear** Vernon, CA<br>Mfrs. & sells corporate & promotional apparel | 937 | 3,879 | 374 | D | C | 11 | 3 | 1983 |
| **380.** | **Bottle Water Vending** Oceanside, CA<br>Sells water for vending machines | 936 | 15,641 | 1,510 | D | C | 124 | 12 | 1983 |
| **381.** | **Management Information Consulting** Arlington, VA<br>Provides computer consulting svcs. | 934 | 1,458 | 141 | D | D | 30 | 2 | 1985 |
| **382.** | **XA Systems** (66) Los Gatos, CA<br>Develops & mkts. eng.-software prods. | 929 | 22,192 | 2,156 | F | D | 198 | 26 | 1982 |
| **383.** | **Associated Family Photographers** Phoenix, AZ<br>Provides family-portrait photography svcs. | 923 | 14,337 | 1,402 | D | D | 315 | 35 | 1984 |
| **384.** | **Hub City Ohio Terminals** Holland, OH<br>Provides shipping svcs. by rail & truck | 913 | 7,905 | 780 | D | F | 6 | 2 | 1980 |
| **385.** | **Sunrise Terrace** Oakton, VA<br>Develops, operates, & manages retirement complexes | 912 | 5,614 | 555 | C | C | 185 | 60 | 1981 |
| **386.** | **Total Terrain** Pueblo, CO<br>Provides landscape construction svcs. | 911 | 1,183 | 117 | B | C | 32 | 3 | 1983 |
| **387.** | **Penn Property & Casualty** Lemoyne, PA<br>Sells insurance & surety prods. | 911 | 1,557 | 154 | D | F | 8 | 2 | 1985 |
| **388.** | **Cellular Service** (101) Glendale, CA<br>Sells monthly cellular-phone svcs. | 909 | 30,612 | 3,035 | D | D | 37 | 7 | 1984 |
| **389.** | **Team Building Systems** Houston, TX<br>Provides preemployment screening svcs. | 907 | 2,377 | 236 | D | F | 15 | 7 | 1984 |
| **390.** | **Mini Computer Software Specialists** Waukesha, WI<br>Provides mgmt.-software systs. | 907 | 1,007 | 100 | B | F | 16 | 3 | 1980 |
| **391.** | **Future Now** (476) Cincinnati, OH<br>Distr. computers | 906 | 48,918 | 4,862 | D | D | 180 | 45 | 1976 |
| **392.** | **Action Group Northwest** Seattle, WA<br>Sells promotional merchandise | 900 | 8,972 | 897 | F | E | 75 | 8 | 1985 |
| **393.** | **Kingdom Tapes & Electronics** Mansfield, PA<br>Sells audio- & videotapes | 898 | 3,871 | 388 | C | C | 46 | 4 | 1981 |
| **394.** | **Champion Mortgage** (109) Parsippany, NJ<br>Provides mortgage banking svcs. | 896 | 15,337 | 1,540 | A | A | 107 | 18 | 1981 |
| **395.** | **Gentle Giant Moving** Somerville, MA<br>Provides moving & storage svcs. | 894 | 1,888 | 190 | E | C | 30 | 5 | 1985 |
| **396.** | **White Pine Software** Amherst, NH<br>Develops computer software | 893 | 2,273 | 229 | A | D | 19 | 4 | 1984 |
| **397.** | **E&L Plastics** Lannon, WI<br>Mfrs. point-of-purchase displays | 889 | 2,919 | 295 | D | D | 46 | 7 | 1984 |
| **398.** | **Certified Engineering & Testing** (226) Braintree, MA<br>Provides environmental testing & consulting svcs. | 888 | 11,712 | 1,185 | E | D | 212 | 33 | 1983 |
| **399.** | **All Gulf Contractors** (405) Mobile, AL<br>Provides asbestos-abatement svcs. | 888 | 13,548 | 1,371 | D | A | 150 | 25 | 1980 |
| **400.** | **KSH Systems** Los Angeles, CA<br>Sells & supports business application software | 887 | 1,076 | 109 | F | E | 14 | 1 | 1984 |
| **401.** | **Execu*Systems** Phoenix, AZ<br>Provides real estate brokerage svcs. | 887 | 1,836 | 186 | C | B | 970 | 2 | 1965 |
| **402.** | **Arrowhead Landscaping & Maint.** (254) Phoenix, AZ<br>Provides landscape contracting svcs. | 886 | 4,981 | 505 | D | C | 175 | 20 | 1983 |
| **403.** | **Prince St. Technologies** Atlanta, GA<br>Mfrs. & sells commercial carpeting | 885 | 18,624 | 1,890 | D | D | 165 | 20 | 1984 |
| **404.** | **Mortara Instrument** (227) Milwaukee, WI<br>Mfrs. medical instruments | 883 | 15,353 | 1,562 | B | B | 90 | 12 | 1982 |
| **405.** | **Wabash National** Lafayette, IN<br>Mfrs. semitrailer & transportation equip. | 881 | 155,095 | 15,809 | D | F | 1,040 | 17 | 1985 |
| **406.** | **McGrath Industries** Clifton Park, NY<br>Provides general-contracting svcs. | 874 | 15,406 | 1,582 | B | C | 105 | 15 | 1985 |
| **407.** | **General Transportation Services** Liverpool, NY<br>Provides transportation & delivery svcs. | 867 | 6,477 | 670 | D | C | 175 | 15 | 1983 |
| **408.** | **West Coast Video** (91) Philadelphia, PA<br>Operates video-rental stores | 865 | 46,584 | 4,828 | D | D | 404 | 61 | 1983 |
| **409.** | **Leros Point to Point** (194) Thornwood, NY<br>Provides corporate transportation svcs. | 863 | 2,476 | 257 | B | F | 55 | 10 | 1984 |
| **410.** | **KD Kanopy** Arvada, CO<br>Mfrs. canopies, tents, banners, & poles | 862 | 2,135 | 222 | B | B | 12 | 7 | 1984 |

*A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

PHOTOGRAPH: GARY LEBLANC

INC.
500

RANK
421
## STEVEN ANDERSON
**CryoLife**

*"One of the fun things now is, I know we're going to make it. There isn't this constant worry about failure."*

■

### THE COMPANY

When CryoLife was founded, some 85% of human hearts donated for transplant were discarded because getting them quickly to recipients was often not logistically possible. CryoLife's technology "recycles" the valves of those unusable hearts by freezing them for later use.

The company has begun expanding into the preservation of veins, and next year it will seek Food and Drug Administration approval for a new method of freezing whole blood. The freezing technique, says Anderson, has the potential to take the company to $50 million in the next five years; it's a payoff of committing 10% to 12% of revenues to research and development—two to three times, he says, the industry average.

### THE FOUNDER

Anderson grew up in St. Paul, Minn.; his mother was a bookkeeper, and his father spent his career at one bank. After a stint in the army, Anderson worked for two decades with medical-products firms, including a start-up. A heart-valve salesman passed on the idea that inspired CryoLife.

| | Company (1989 rank)<br>Business description | Sales growth 1985-89 % increase | '89 sales ($000) | '85 sales ($000) | Profit range* | | No. of employees | | Date founded |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | '89 | '85 | '89 | '85 | |
| **411.** | **C.W. Brown** Thornwood, NY<br>Provides interior renovation svcs. | 861% | $5,976 | $622 | D | D | 27 | 10 | 1984 |
| **412.** | **FRS** Sacramento, CA<br>Repairs computer periph. | 859 | 8,451 | 881 | D | F | 121 | 50 | 1984 |
| **413.** | **Consolidated Food Management** Winter Park, FL<br>Mfrs. gourmet pasta & sauces | 859 | 1,784 | 186 | D | F | 40 | 8 | 1984 |
| **414.** | **Bull & Finch Enterprises** Boston, MA<br>Produces, sells, & distr. "Cheers" clothing | 856 | 6,236 | 652 | D | D | 65 | 8 | 1985 |
| **415.** | **LINC Group** Chicago, IL<br>Provides finan. svcs. for health-care industry | 856 | 85,792 | 8,974 | D | B | 250 | 34 | 1975 |
| **416.** | **CareTeam Management** Wichita Falls, TX<br>Provides home health care | 855 | 14,564 | 1,525 | D | A | 95 | 20 | 1984 |
| **417.** | **Software 2000** (208) Hyannis, MA<br>Develops finan.-& environmental-mgmt. software | 853 | 20,086 | 2,107 | C | A | 190 | 30 | 1981 |
| **418.** | **Trecom Business Systems** Edison, NJ<br>Provides software dvlpmt. & integration svcs. | 853 | 45,426 | 4,769 | C | E | 570 | 76 | 1985 |
| **419.** | **Financial Supermarkets** (150) Poughkeepsie, NY<br>Provides finan. planning svcs. | 852 | 11,899 | 1,250 | B | D | 24 | 2 | 1978 |
| **420.** | **Chums** Hurricane, UT<br>Mfrs. eyeglass retainers & sportswear | 852 | 2,275 | 239 | C | F | 54 | 4 | 1983 |
| **421.** | **CryoLife** Marietta, GA<br>Preserves human tissue for transplants | 852 | 8,593 | 903 | F | F | 51 | 9 | 1984 |
| **422.** | **International Organic Products** Laurel, MD<br>Distr. designer fragrances & cosmetics | 850 | 998 | 105 | D | D | 2 | 3 | 1983 |
| **423.** | **wTe** (199) Bedford, MA<br>Provides solid-waste-mgmt. svcs. | 850 | 14,574 | 1,534 | F | C | 200 | 75 | 1981 |
| **424.** | **Leopardo Construction** (351) Glendale Heights, IL<br>Provides general-contracting svcs. | 849 | 26,387 | 2,781 | D | D | 60 | 14 | 1979 |
| **425.** | **Walker Richer & Quinn** (230) Seattle, WA<br>Mfrs. communication software prods. | 843 | 18,613 | 1,974 | A | F | 105 | 13 | 1980 |
| **426.** | **Red Trolley** Long Beach, CA<br>Distr. groceries & paper goods to restaurants | 842 | 1,310 | 139 | C | D | 3 | 1 | 1983 |
| **427.** | **IMRS** (213) Stamford, CT<br>Develops finan. information mgmt. software | 840 | 12,682 | 1,349 | C | C | 93 | 20 | 1981 |
| **428.** | **Escape Enterprises** Columbus, OH<br>Operates fast-food restaurant chain | 838 | 1,905 | 203 | A | C | 20 | 4 | 1982 |
| **429.** | **Oncor** Gaithersburg, MD<br>Provides R&D svcs. for DNA/RNA probes | 838 | 2,345 | 250 | F | F | 40 | 10 | 1983 |
| **430.** | **American Medical Imaging** (10) Horsham, PA<br>Provides ultrasound testing svcs. | 832 | 12,854 | 1,379 | F | D | 182 | 24 | 1984 |
| **431.** | **Municipal Marketing Services** Pittsburgh, PA<br>Provides direct-mail fund-raising program | 819 | 919 | 100 | D | F | 9 | 2 | 1980 |
| **432.** | **Midwest Wood Treating** (99) Norwalk, OH<br>Treats lumber with wood preservatives & chemicals | 818 | 7,880 | 858 | D | D | 30 | 8 | 1983 |
| **433.** | **Colter Bay International** (176) New York, NY<br>Mfrs. women's, men's, & children's apparel | 817 | 17,013 | 1,856 | D | D | 27 | 7 | 1983 |
| **434.** | **Wang Associates PR** (261) New York, NY<br>Provides PR for pharmaceutical & biotech cos. | 816 | 1,740 | 190 | B | A | 25 | 5 | 1983 |
| **435.** | **Northwest Conduit** Plain City, OH<br>Installs cable & conduits for phone & electric cos. | 815 | 4,428 | 484 | F | A | 87 | 10 | 1984 |
| **436.** | **Russell Personnel Services** (184) San Francisco, CA<br>Provides temporary- & permanent-help svcs. | 815 | 4,309 | 471 | B | A | 1,315 | 317 | 1983 |
| **437.** | **USA Heating & Air Conditioning** Indianapolis, IN<br>Sells, installs, & svcs. heating & AC equip. | 814 | 1,609 | 176 | D | F | 33 | 5 | 1985 |
| **438.** | **MediCenter** Lawton, OK<br>Operates primary-care medical centers | 813 | 3,650 | 400 | A | A | 67 | 5 | 1984 |
| **439.** | **R.W. Lynch** (67) San Ramon, CA<br>Provides mkt. & TV advertising svcs. | 812 | 9,907 | 1,086 | D | F | 50 | 10 | 1984 |
| **440.** | **TABRA** Fairfax, CA<br>Designs & mfrs. handcrafted jewelry | 811 | 3,251 | 357 | B | A | 65 | 10 | 1982 |
| **441.** | **Transition Dynamics** Bohemia, NY<br>Resells computer supplies | 806 | 2,819 | 311 | D | F | 14 | 3 | 1982 |
| **442.** | **Full Line Foods** (370) Camden, NJ<br>Distr. food | 804 | 10,433 | 1,154 | D | D | 27 | 4 | 1980 |
| **443.** | **NHS** (214) Soquel, CA<br>Distr. skateboards & related prods. | 804 | 24,652 | 2,728 | B | D | 138 | 64 | 1972 |
| **444.** | **CText** (269) Ann Arbor, MI<br>Mfrs. newspaper publishing systs. | 803 | 10,542 | 1,167 | C | F | 100 | 9 | 1983 |
| **445.** | **Compu-Link** (105) Clearwater, FL<br>Mfrs. & installs computer cables & networks | 803 | 5,759 | 638 | D | C | 105 | 24 | 1984 |

*A: 16% or more; B: 11% to 15%; C: 6% to 10%; D: 1% to 5%; E: Break-even; F: Loss

PHOTOGRAPH LYNN SILER

RANK

## 464

## ANITA DIMONDSTEIN AND JOAN COOPER

### Biobottoms

*"We're in transition . . . looking at how we can best continue to do those things we really enjoy."*
—Anita Dimondstein

■

### THE COMPANY

Dimondstein and Cooper both had young children in 1981, when they discovered an imported soft wool diaper cover, used over washable diapers. For Dimondstein, a midwife, and Cooper, a teacher, the wool cover had more appeal than a plastic one, so "in usual naïve, entrepreneurial fashion," says Dimondstein, "Joan and I looked at each other and said, 'If *we* can use these, there must be other people who can, too.'"

Their original idea was to be distributors of that single product, but they began worrying about potential import quotas. (The diaper covers are made in Japan.) As protection and in response to customer interest, they have diversified into children's clothing.

### THE FOUNDERS

They were roommates in the 1960s at the University of Pennsylvania. As business partners, they're "mutually supportive," says Cooper. "We respect each other quite a lot in our judgment, and we do defer to each other if one feels strongly about something."

| | Company (1989 rank)<br>Business description | Sales growth 1985-89 % increase | '89 sales ($000) | '85 sales ($000) | Profit range* '89 | Profit range* '85 | No. of employees '89 | No. of employees '85 | Date founded |
|---|---|---|---|---|---|---|---|---|---|
| **446.** | **Unique Transportation Systems** (337) Lewisville, TX<br>Provides interstate trucking svcs. | 802% | $6,416 | $711 | F | C | 90 | 16 | 1983 |
| **447.** | **Eastern Marine Construction** (232) Nashua, NH<br>Provides construction & site-preparation svcs. | 802 | 8,686 | 963 | D | D | 135 | 22 | 1981 |
| **448.** | **JasTech** (114) Cleveland, OH<br>Provides information-systs. consulting svcs. | 801 | 4,226 | 469 | F | B | 96 | 1 | 1983 |
| **449.** | **Clean Cut** Austin, TX<br>Provides landscape-mgmt. svcs. | 798 | 1,464 | 163 | C | B | 60 | 8 | 1983 |
| **450.** | **Lone Star RV Sales** Houston, TX<br>Sells recreational vehicles | 796 | 5,637 | 629 | D | F | 14 | 4 | 1985 |
| **451.** | **ERM-West** Walnut Creek, CA<br>Provides environmental-consulting svcs. | 795 | 10,010 | 1,119 | C | A | 80 | 12 | 1984 |
| **452.** | **McLean Rentals** Newington, VA<br>Rents construction equip. | 793 | 20,175 | 2,259 | C | C | 165 | 83 | 1974 |
| **453.** | **Harmony Schools** Princeton, NJ<br>Provides child-care svcs. | 792 | 1,971 | 221 | C | A | 100 | 12 | 1981 |
| **454.** | **Custom Packaging Systems** Manistee, MI<br>Mfrs. industrial bags & liners | 790 | 3,710 | 417 | D | E | 85 | 10 | 1975 |
| **455.** | **Software Alternatives** (335) Maumee, OH<br>Develops software & integrates hardware | 788 | 21,300 | 2,400 | D | E | 330 | 74 | 1978 |
| **456.** | **TECA** Louisville, KY<br>Operates hair-care franchises | 784 | 1,822 | 206 | D | F | 128 | 12 | 1984 |
| **457.** | **Funeral Directors Life Insurance** Abilene, TX<br>Provides prearranged funeral svcs. | 783 | 16,219 | 1,837 | D | D | 21 | 6 | 1981 |
| **458.** | **BASIS International** Albuquerque, NM<br>Develops computer software & database systs. | 782 | 2,444 | 277 | B | C | 39 | 5 | 1985 |
| **459.** | **ABL Electronics** Timonium, MD<br>Mfrs., imports, & distr. computer cable assemblies | 778 | 1,537 | 175 | D | E | 54 | 8 | 1982 |
| **460.** | **Beckart Environmental** Kenosha, WI<br>Mfrs. wastewater-treatment equip. | 778 | 2,134 | 243 | D | D | 20 | 3 | 1978 |
| **461.** | **Supplyline** Orlando, FL<br>Sells computer prods. & business forms | 777 | 2,989 | 341 | D | D | 25 | 4 | 1982 |
| **462.** | **Telebase Systems** Bryn Mawr, PA<br>Operates information svcs. network | 775 | 5,021 | 574 | F | F | 57 | 15 | 1984 |
| **463.** | **DiGesare Mechanical** (292) Schenectady, NY<br>Installs plumbing, heating, & AC systs. | 773 | 11,936 | 1,367 | D | D | 90 | 30 | 1950 |
| **464.** | **Biobottoms** Petaluma, CA<br>Sells natural-fiber clothing by mail order | 771 | 8,279 | 951 | C | D | 56 | 10 | 1981 |
| **465.** | **RHS Fertilizing/Spraying Systems** (305) Hiawatha, KS<br>Designs, mfrs., & distr. spraying equip. | 769 | 2,623 | 302 | C | D | 19 | 4 | 1980 |
| **466.** | **Professional Salon Concepts** (144) Joliet, IL<br>Distr. beauty salon prods. | 762 | 4,421 | 513 | C | D | 28 | 8 | 1983 |
| **467.** | **Flexible Business Systems** Melville, NY<br>Integrates microcomputer systs. | 760 | 2,674 | 311 | D | C | 12 | 2 | 1985 |
| **468.** | **M. Lavine Design Workshop** (471) Cold Spring, MN<br>Designs & mfrs. store display fixtures | 752 | 2,419 | 284 | D | F | 8 | 5 | 1981 |
| **469.** | **Steadfast** Chelsea, MA<br>Mfrs. metal stampings for aircraft | 751 | 1,643 | 193 | B | F | 26 | 5 | 1982 |
| **470.** | **Microware** Beaverton, OR<br>Distr. computer equip. & periph. | 751 | 134,449 | 15,797 | D | D | 381 | 42 | 1979 |
| **471.** | **Morningstar** Chicago, IL<br>Publishes finan. information | 750 | 1,114 | 131 | E | F | 29 | 2 | 1984 |
| **472.** | **COMReP** Omaha, NE<br>Designs & administers insured-investment programs | 750 | 12,108 | 1,424 | D | E | 12 | 4 | 1982 |
| **473.** | **Super Wash** (280) Morrison, IL<br>Owns & manages coin-operated car washes | 750 | 23,065 | 2,713 | C | C | 70 | 9 | 1981 |
| **474.** | **CAD/CAM Engineering** Indianapolis, IN<br>Provides engineering svcs. using CAD/CAM | 750 | 13,259 | 1,560 | C | F | 137 | 28 | 1982 |
| **475.** | **Liant Software** Framingham, MA<br>Develops & mkts. integ. programming systs. | 749 | 12,995 | 1,530 | A | F | 129 | 25 | 1980 |
| **476.** | **Nationwide Vending Svcs.** (195) Upland, CA<br>Provides mgmt. svcs. for vending machines | 746 | 8,615 | 1,018 | F | F | 44 | 15 | 1983 |
| **477.** | **Green Thumb Enterprises** (316) Sterling, VA<br>Provides commercial landscape contracting svcs. | 746 | 11,000 | 1,300 | D | C | 278 | 80 | 1982 |
| **478.** | **Journal of Light Construction** (463) Richmond, VT<br>Publishes construction trade magazine | 743 | 1,805 | 214 | F | D | 35 | 3 | 1982 |
| **479.** | **Software X-Change** Oklahoma City, OK<br>Develops, publishes, & distr. video games | 743 | 3,837 | 455 | C | D | 36 | 4 | 1984 |
| **480.** | **Consolidated Southern Industries** Anderson, SC<br>Fabricates metal | 741 | 908 | 108 | B | D | 20 | 3 | 1984 |

*A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

PHOTOGRAPH: CHRISTOPHER SPRINGMANN

RANK
486

**SUZANNE CLIFTON**

**Executive Temporaries**

*"My husband kept pushing. 'Why don't you go into business?' he'd say. And I said, 'You've got to be kidding!' "*

■

### THE COMPANY

When Clifton started her firm, there were five competing temporary personnel agencies in the city. Now there are seven times that many. Clifton competes by making sure the temps she sends out are well trained; the company has a training center to give one-on-one tutorials on different computer programs and systems.

### THE FOUNDER

"I got married and had two children because back in those days, and it wasn't long ago, that was the thing to do. But there were so many things gnawing at me because there was something more that I needed."

In 1971 Clifton was divorced and began teaching full-time. Later she remarried and got a job at Olsten Corp., where she worked for three years before starting her own company—at the urging of her husband, Larry. He also runs his own company, in janitorial contracting, where Clifton's two sons work. "We now have to have someone clean for us, someone to do the yardwork. We have a different lifestyle. And I don't feel guilty anymore about not making dinner."

| | Company (1989 rank)<br>Business description | Sales growth 1985-89 % increase | '89 sales ($000) | '85 sales ($000) | Profit range* '89 | Profit range* '85 | No. of employees '89 | No. of employees '85 | Date founded |
|---|---|---|---|---|---|---|---|---|---|
| **481.** | **Hancock Information Group** Longwood, FL<br>Provides mkt. research for hardware & software cos. | 738% | $1,014 | $121 | D | C | 38 | 4 | 1985 |
| **482.** | **DMC Construction** (252) Fresno, CA<br>Provides general-contracting svcs. | 737 | 23,843 | 2,850 | D | D | 57 | 8 | 1976 |
| **483.** | **T&K Roofing** Ely, IA<br>Provides commercial & industrial roofing svcs. | 735 | 3,935 | 471 | F | F | 65 | 29 | 1962 |
| **484.** | **Hydro Services** (271) Long Beach, CA<br>Provides industrial maintenance svcs. | 735 | 9,913 | 1,187 | C | D | 190 | 35 | 1982 |
| **485.** | **BSE Management** (149) Arcadia, CA<br>Provides eng.- & environmental-consulting svcs. | 732 | 7,604 | 914 | D | B | 126 | 14 | 1982 |
| **486.** | **Executive Temporaries** Cary, NC<br>Provides temporary-help svcs. | 731 | 2,168 | 261 | D | D | 10 | 3 | 1984 |
| **487.** | **Syscomm International** (319) Hauppauge, NY<br>Sells computer hardware & software | 729 | 30,072 | 3,629 | F | D | 70 | 20 | 1980 |
| **488.** | **Amorous Andi's Cookies & Candies** Lorton, VA<br>Mfrs. & distr. baked prods. | 728 | 1,201 | 145 | F | F | 42 | 2 | 1985 |
| **489.** | **AC3 Computer Centers** (416) Birmingham, AL<br>Distr. computers, periph., & related prods. | 728 | 105,396 | 12,734 | D | D | 309 | 48 | 1980 |
| **490.** | **Auburn Merchandise Distributors** (59) Auburn, MA<br>Distr. tobacco, confectionary, & related prods. | 727 | 66,034 | 7,983 | D | D | 92 | 16 | 1984 |
| **491.** | **Bohdan Associates** (168) Gaithersburg, MD<br>Sells & svcs. computer equip. & software | 727 | 74,046 | 8,957 | D | D | 147 | 17 | 1983 |
| **492.** | **Jandel Scientific** (216) Corte Madera, CA<br>Mfrs. software tools for scientific research | 726 | 3,338 | 404 | E | F | 32 | 12 | 1982 |
| **493.** | **McDonald Bradley** McLean, VA<br>Provides computer application consulting svcs. | 726 | 1,759 | 213 | C | F | 33 | 11 | 1985 |
| **494.** | **New England Digital Distribution** Beverly, MA<br>Provides telecomm. networks | 726 | 3,551 | 430 | F | F | 24 | 3 | 1983 |
| **495.** | **Comark** (444) Glendale Heights, IL<br>Distr. computers & periph. | 725 | 67,439 | 8,178 | D | D | 130 | 50 | 1977 |
| **496.** | **Decker, Hardt, Kopf, Harr, Munsch & Dinan** Dallas, TX<br>Provides commercial law svcs. | 723 | 7,558 | 918 | A | A | 77 | 17 | 1985 |
| **497.** | **Design Communications** Boston, MA<br>Fabricates arch. signs & displays | 719 | 1,474 | 180 | D | F | 29 | 7 | 1984 |
| **498.** | **Computer Media Tech.** (134) Mountain View, CA<br>Mfrs. & sells computer recording media | 716 | 2,652 | 325 | C | C | 6 | 2 | 1984 |
| **499.** | **Continental Food** Overland Park, KS<br>Imports & distr. gourmet & specialty foods | 714 | 822 | 101 | C | D | 7 | 2 | 1984 |
| **500.** | **Coddbarrett Associates** (315) Providence, RI<br>Provides computer graphics systs. | 713 | 3,498 | 430 | E | B | 20 | 10 | 1981 |

*A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

## HOW THE INC. 500 WERE SELECTED

To be eligible for the 1990 *Inc.* 500, a company must have been independent and privately held on July 9, 1990, the day applications were due. The rankings are based on the percentage increase in sales from 1985 through 1989. Companies had to show at least $100,000 but no more than $25 million in sales for 1985 and had to register a sales increase between 1988 and 1989. Holding companies and regulated banks and utilities are not eligible.

Information on each applicant was verified by tax forms, by confirmation letters from certified public accountants, and by telephone conversations with company officials. Most of the work is done by our summer interns. If your company is on this year's list, you talked with Brendan Case, a sophomore at Haverford College; Suzanne Coulter, a senior at Carleton College; Maggie Davis, a 1989 graduate of the University of Washington; Tom Drohan, a 1990 graduate of Johns Hopkins University; Mark Gilmor, a sophomore at Hobart College; Ralph Groves, a senior at Amherst College; Matt Huber, a senior at Providence College; Kate McDonough, a 1990 graduate of Colby-Sawyer College; Kathy Ryan, a 1990 graduate of Williams College; or Caty Supper, a senior at Bowdoin College.

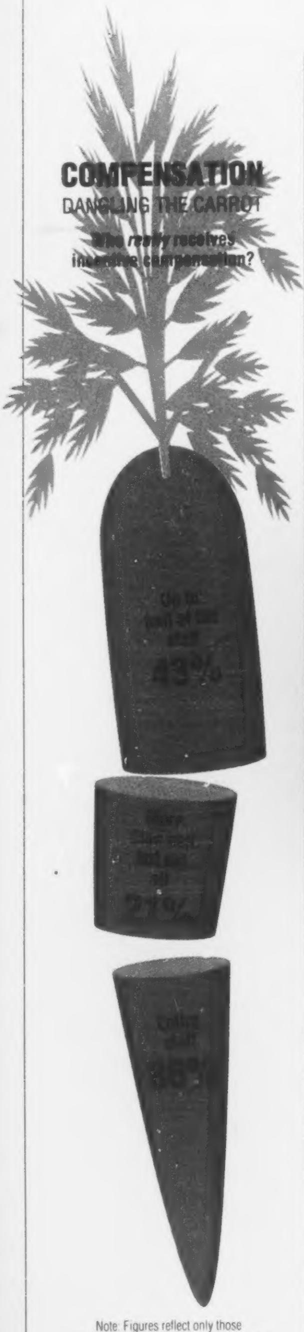
The *Inc.* 500 is prepared under the direction of special projects editor Sara Baer-Sinnott. Also helping to compile this year's list were assistant research editor Deborah L. Weeks and editorial assistant Christopher Caggiano. Staff writer Leslie Brokaw wrote the profiles that appear among the listings.

The information published here is the only material *Inc.* will make available.

PHOTOGRAPH: CHIP HENDERSON

# HANDS ON

A MANAGER'S NOTEBOOK



Note: Figures reflect only those companies that offer incentive compensation.

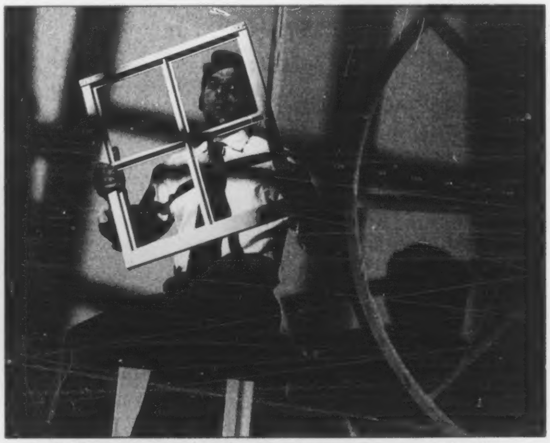
Source: Survey of 250 manufacturers with sales ranging from $10 million to $200 million, Grant Thornton, Chicago, 1990

**TRAINING**

## I see what you mean

"We'd lecture employees all day long about what needed to be improved, and they wouldn't get it," recalls Mark Taylor, CEO of AFS Window & Door Corp., a $10-million maker of wooden windows and doors based in Anaheim, Calif. Now Taylor has meetings every two months in which he serves pizza to his 70 employees and they watch videos of customers on construction sites pointing out problems with the windows. Since the sessions began, customer complaints have been cut by more than 60% and returns due to poor shipping and handling have become rare.

Salespeople, who double as camera-crew members, report that customers are flattered to have their complaints addressed so responsibly. "Employees immediately see how mistakes can cause problems and know what needs to be done," says Taylor. ❑



*CEO Mark Taylor uses videos to ensure employees get the picture.*

**INTERNATIONAL**

## World piece

Lining up good stateside distributors is challenge enough, but finding committed distributors overseas is even more daunting. Most foreign distributors will want exclusivity. Should you grant it?

Yes—and no, says Roy Kessler, president of PC Globe Inc., a $6-million Tempe, Ariz., company that put the atlas onto software.

At first Kessler cut a deal offering exclusivity without any performance clause and with no insistence on a front-end order. Overseas product sales languished.

Now if distributors want exclusivity, Kessler offers 20% of what they think they can sell in a year as their first order, which must be prepaid. "They don't get an exclusive so much as the *opportunity* for an exclusive," says Kessler. As long as they keep ordering as much as their first order each quarter, they retain their monopolies. To date, PC Globe's German distributor has maintained its exclusive rights. The product sells in 15 foreign countries, accounting for 15% to 20% of overall sales. ❑

**FINANCE**

## Red alert

At Decoma Industries, staying on top of accounts receivable is everybody's job, including the president's. On the Vernon, Calif., architectural firm's project-scheduling board, a red dot goes up next to the names of late-paying customers. Employees halt work on those clients' projects. "It keeps us focused on profitable projects rather than on the ones for which we have the most emotional investment," says president Steve Notaro.

The red dot goes up if an invoice payment is one day past due (30 days after it's mailed). Notaro mails or faxes the customer a copy of the invoice with a note saying work has stopped. He follows up with a letter every 15 days. Each day he personally calls the two most delinquent customers. Notaro has used the approach since the company's founding, 12 years ago. Decoma, a $2.5-million business, has never had a bad debt. ❑

**MARKETING**

## Guaranteed attention

How do you push an invisible product? That was the challenge facing ComponentGuard Inc., a Valhalla, N.Y., business that sells extended warranties for consumer electronic items.

CEO Robert Minnick came up with a novel approach: he put his service contract and membership card in a colorful plastic package that hangs from retail racks like a stereo accessory. With the new packaging, sales jumped to $6.1 million in 1990, from $1.4 million in 1989. In fact, sales for the first quarter in which the new package was used nearly equaled the revenues for all of 1989. ❑

PHOTOGRAPH: MICHAEL GRECO CHARTS: ELIOT BERGMAN

**HIRING**

## Tell me about it

In an age of professional résumés, it's difficult to tell much about candidates you are interviewing. One way to assess them is to have them write up "minutes" after a job interview. Victoria Buyniski, CEO of $5-million United Medical Resources Inc., in Cincinnati, has used the approach to hire each of the 91 employees who staff her health-care-administration business—from the mail room to the executive suite.

Candidates who don't come off well in a face-to-face interview will often show promotable attributes in their writing, while others describe a job markedly different from what Buyniski has to offer, indicating potential communication problems. "Three pages dashed off in 15 minutes tells me they are producers," she says. "Lots of cross-outs tell me that people couldn't even match their socks very easily." ❑

**RESOURCE**

## Servicing customers

A systematic approach to customer service can be the key to its success. *How to Win Through Great Customer Service,* published by Quill Corp., is a 64-page primer that includes samples of customer service policies as well as a self-assessment guide that can help you cut to the core issues in setting up an effective customer service policy of your own.

To order the booklet, send $2.95 to cover shipping and handling to The Quill Business Library, 100 Schelter Rd., Lincolnshire IL 60069, or call (708) 634-4850. ❑

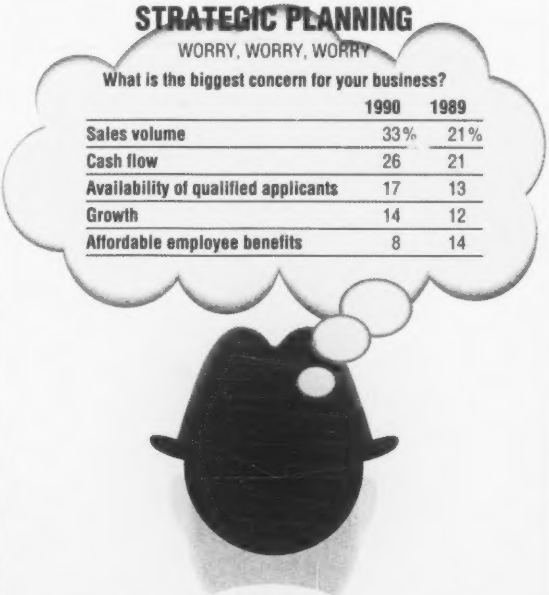
**MANAGING PEOPLE**

## People's court

An informal employee-grievance policy isn't good enough for American Steel & Wire Corp., in Cuyahoga Heights, Ohio. At this 540-employee business, compensation, promotion, and termination beefs are taken to an employee council that reviews managers' decisions. "We wanted a formal way to resolve issues with employees that would be objective and give them confidence in the management team here," says CEO Tom Tyrrell.

*American Steel & Wire Corp.'s Tom Tyrrell*

Termination disputes can go directly to the council, but employees must work through a chain of management command for all other grievances. From a pool of employee volunteers trained in arbitration, the complainant blindly chooses nine names and then picks the six employees and one manager who will hear his case. Since June 1988 the council has heard 30 cases. About 50% of the judgments have upheld the manager's original decision. ❑



## STRATEGIC PLANNING

WORRY, WORRY, WORRY

**What is the biggest concern for your business?**

| | 1990 | 1989 |
|---|---|---|
| Sales volume | 33% | 21% |
| Cash flow | 26 | 21 |
| Availability of qualified applicants | 17 | 13 |
| Growth | 14 | 12 |
| Affordable employee benefits | 8 | 14 |

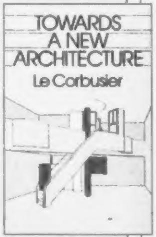
Source: "Pulse of the Middle Market 1990," a survey of 1,650 owners of businesses with revenues ranging from $2 million to $100 million. BDO Seidman, New York City

**CEO'S READING LIST**

### *Towards a New Architecture*

by Le Corbusier,
Dover, 1986

"I studied to be an architect. And I find tremendous similarities between building a company and the design process. Businesses have to do their planning on the fly in a fashion similar to an architect sketching. Le Corbusier talks about the process of designing a building, putting the first sketches down on paper and working from them. Building a business also requires a tremendous amount of sketch work.



"For instance, we rolled out a new series of preparation courses for the LSAT, GRE, and GMAT. Instead of honing the workbooks really carefully before using them with customers, we did the best job we could in six months—sketching out the material and, during that time, tutoring students for free. We created extremely small classes in our first year of operation so the personal touch could make up for flaws in the materials.

"I am always making sketches of how information should look or mapping out a marketing campaign. When I present my notes, people start responding to them. Desktop publishing makes everything look slick. When you present sketches, it helps start the dialogue and collaboration."

—John Katzman, CEO,
The Princeton Review
New York City

PHOTOGRAPH: BRUCE ZAKE

# HANDS ON

INCENTIVES

## Get now, earn later

Pat Kelly, CEO of Physician Sales & Service (PSS), in Jacksonville, Fla., wanted his medical-instruments salespeople to sell a load of examination tables within 60 days. So he gave them a sales incentive up front: cellular phones that they'd keep only if they sold enough tables. "Once they got used to the phones, I knew they wouldn't want to turn them back in," says Kelly, who had the phones installed while he was offering his sales force the challenge at a meeting.

Kelly wanted PSS's 70 salespeople to sell an average of one table apiece. So the deal was that each of the 12 sales offices would have to sell one $4,000 table for each salesperson in the office. If an office fell one table short, its salespeople would have to chip in and buy one phone. The sales force not only reached its goal of 70 tables but surpassed it; 105 were sold, with no returns. ❑

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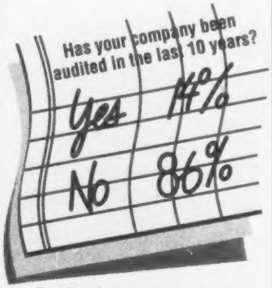
## TAXES

BEWARE OF THE TAX MAN



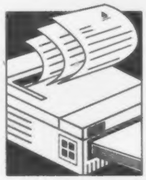
**Growth rate was apparently not a red flag for the IRS. Audited companies had 20% annual growth on average, compared with 16% for unaudited companies.**

Source: Telephone poll of 2,092 owners of businesses with 10 or fewer employees. United Group Information Services, Hurst, Tex., 1990.

ON THE CHEAP

## TONING DOWN LASER PRINTING COSTS

By Cary Lu



Laser printers have become routine office fixtures as their prices have dropped. But the cost of toner cartridges can easily make the printers expensive to use. There's relief. Remanufactured cartridges are available for laser printers made by Canon Inc., of Japan, and for many other printers.

New Canon cartridges—usually good for 3,000 to 4,000 pages—sell for $90 to $120 each. If you use no more than three cartridges a year, you should buy new ones, since any savings on remanufactured ones will be small.

Remanufactured cartridges typically sell for $50 to $60 with the exchange of an old cartridge. The best way to find a remanufacturer is through referrals from other laser printer users; also check the back pages of local computer newspapers.

Not all Canon cartridges can be remanufactured easily. The EP cartridges used by early Canon printers (Hewlett-Packard LaserJet, Apple LaserWriter, and others) can usually be rebuilt four to six times without difficulty. But the EP-S cartridges (HP LaserJet II and III, Apple LaserWriter II) and EP-L cartridges (HP IIP and Apple Personal LaserWriter) have softer photoconductor drums good for only one or two recharges. To prolong the life of those cartridges, several companies offer replacement photoconductor drums. A recycled cartridge with a new drum can cost as much as a new cartridge, but it can be refilled six or seven times.

Properly done, toner recharging works well—so well that Canon discourages the practice by trying to keep old cartridges off the market. Canon offers to ship spent cartridges for free to a recycling center that reportedly grinds them up. ❑

---

EMPLOYEE MOTIVATION

## Working the phone

"All you have to do is answer customer-support phones for two hours to realize how stressful it is and how important those reps are to building customer loyalty," says Don Emery, president and CEO of $5.2-million Reference Software International (#46 on the 1990 *Inc.* 500), in San Francisco, a maker of grammar-checking programs. Fearful that his staff would burn out, he set aside one day a week for customer service reps to work on self-designed projects.

"It went over like a raise and has benefited our company as much as it did the employees," he says.

One employee programmed a demonstration disk that the company would have had to hire an outsider to do. Another started in-house software-training classes. A third started a computer bulletin board for grammar aficionados. The quality work at bargain prices and low departmental turnover offset the cost of hiring an additional rep to cover the phone lines, reports Emery. ❑

RECRUITING

## Classified information

Linda L. Miles gets plenty of hard workers to reply to her help-wanted ads. The CEO of Linda L. Miles & Associates, a $1.2-million trainer of medical office support staff, in Virginia Beach, Va., has fine-tuned her ad copy over the past five years while hiring 16 people. "When employees have a bad day at work, they go home and scan the want ads. Appeal to their sense of being underappreciated," recommends Miles, whose hook reads: "Are you enthusiastic, caring, and dependable? Would you enjoy a secretarial opportunity in an office that truly appreciates the staff?" "That says the company respects employees," says Miles.

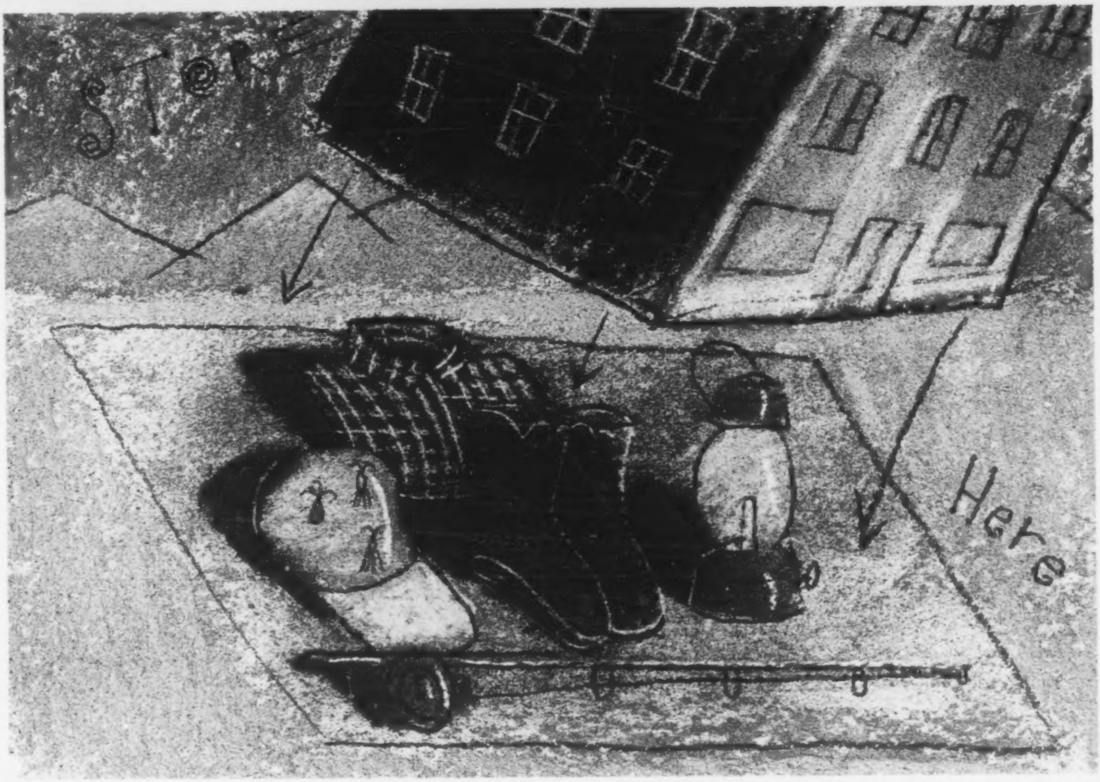
*Classified-ad pro Linda Miles*

She now recommends the approach to her clients. One doctor changed his ads from focusing on benefits, hours, and salary to a more appreciative approach. His responses shot up from 6 to 100. "His old ads attracted applicants who were more interested in benefits than doing a great job," says Miles. ❑

*Reported by Teri Lammers, Leslie Brokaw, and Susan Greco*

ILLUSTRATION: ELLEN TIKKAEN PHOTO: DOUGLAS MILLER

# BUSINESS FOR SALE



## RCKY MTN OUTDOOR-GOODS DISCOUNTER

**THE BUSINESS** A single-location discount retailer of reputable outdoor goods and clothing. If you haven't shopped there, you've shopped someplace like it: aisles strategically cluttered; shelves overripe with everything from tents and Swiss army knives to shoes, denims, and skiwear; a local "institution" that's served three generations of customers despite spending nothing on advertising. The owners are retiring.

**FINANCIAL SUMMARY**
(in $ thousands)

| | 1988 | 1989 | 1990 * |
|---|---|---|---|
| Gross sales | $3,239 | $3,391 | $3,600 |
| Recast pretax profit | 554 | 598 | 630 |

*projected

**PRICE** $3 million

**OUTLOOK** A recession-proof retailer? The sellers claim so. As the economy in its Colorado city went belly-up, sales and profits at this store stayed strong. Sales per square foot exceed $500—more than twice what comparable niche outlets expect. The sellers argue that the business can be expanded by cloning new units that trade on the store's well-established reputation.

**PRICE RATIONALE** The sellers point to enormous goodwill and reliable profits, but the earnings multiple of five looks optimistic—manufacturers may get that, say insiders, but retailers typically are priced at a multiple of three to four. Net worth is reported at close to $1.5 million, but that too may be soft; nearly two-thirds of the assets are inventory, which banks won't value at 100%.

**PROS** Solid historical performance, including sales that trend against a slumping market. Some say the local economy is healing, and even if it isn't, this low-end, price/value leader could thrive. The right niche at the right time?

**CONS** Retailing is distressed, and if the national economy goes further south, then even this business could be hit. Inventory, at $1 million wholesale, is too high and turns over only half as fast as most operators would like. Is regional expansion really possible without cannibalizing the parent?

Inc. *has no stake in the sale of the business featured and cannot confirm the accuracy of financial or other information offered by the seller. Inquiries should be directed to Colorado Business Consultants, in Denver.*

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ILLUSTRATION: REGAN DUNNICK

THE MAGAZINE FOR
GROWING COMPANIES

JAN. 1991

# Inc.®

# ENTREPRENEUR OF THE YEAR AWARDS

From thousands of nominees, Inc.'s national panel of judges picks the winners

PLUS:

## THE ANATOMY OF A START-UP
Made in Montana

## GETTING TO PRIME
Why some companies attain peak performance

## GOOD FORM
Keeping tabs on your sales force

## CAPITAL
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S. ROBERT LEVINE, PRESIDENT AND CEO OF CABLETRON SYSTEMS INC.

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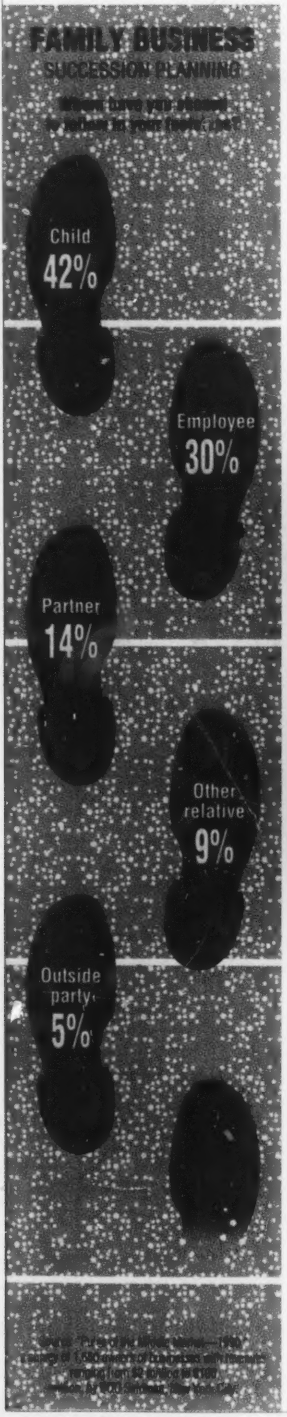
COVER PHOTOGRAPH
by
Eric Roth

# HANDS ON

A MANAGER'S NOTEBOOK



**CUSTOMER SERVICE**

## Watching dough rise

Lots of managers chatter away about the importance of keeping customers satisfied. But Frank Meeks, CEO and owner of Domino's Pizza Team Washington Inc., which owns 42 stores in the Washington, D.C., area, thinks employees have difficulty committing themselves to abstractions. So he spells it out for them.

Employees are taught the dollar consequences of alienating customers. "Many customers," Meeks explains, "do business with the company twice a week, spending close to $1,000 annually, not including tips. Extending that over seven years, that's $7,000. And unhappy customers tell about a dozen other people, multiplying the potential damage even further."

All problems don't disappear by educating people about those numbers, says Meeks. But it does help them focus on the importance of happy customers. "We want them to adopt a philosophy about what they do. Having a number helps us do it." ❑

*Employees learn to put a dollar figure on unhappy customers.*

**MANAGING PEOPLE**

## The buddy system

The biggest complaint about hourly employees—especially if they're teenagers or college students—is that they often don't show up for work. Well, Lisa G. Renshaw, who runs four parking lots in Baltimore, hires college students almost exclusively, and she never has that problem. Her secret: the buddy system.

"For every shift, I'll assign two people for each job," says Renshaw, president of 13-employee Penn Parking. "You'll have the 2:30 p.m. to 10:30 p.m. shift Monday through Wednesday, and I'll have it Thursday through Sunday, and you and I will be buddies. If I can't cover my shift, I can call you up and switch. And you can do the same for me."

Rarely can both people not make it, says Renshaw. "People are more than willing to cover for their buddies because they know that someday they'll want them to return the favor." ❑

**TRAINING**

## Field gold

Putting new executives to work on the shop floor is a good way to bring field workers closer to the home office. But don't stop with your managers, says Jack Daugherty, CEO of Cash America Investments Inc., a $100-million chain of pawnshops based in Fort Worth.

At Cash America, employees—from secretaries to accountants to the president—spend time in a store getting familiar with systems for appraising goods, assessing borrowing needs, and writing loans.

That way, when pawnshop clerks or field managers call the home office, they don't get the runaround. After her stint behind the counter, Vicki Stanley, Daugherty's secretary, saw how merchandise was handled. Now if a clerk calls and has a question, she can help. ❑

**MARKETING**

## Prospecting rivals

Competitors can be good for business, believes Richard Gsottschneider, CEO of RKG Associates Inc., a $1-million real estate consulting firm in Durham, N.H. He gets job referrals by sending his company newsletter to his rivals.

The semiannual four-page newsletter features items on RKG projects, regional news, and economic issues. It costs about $1 per newsletter to produce and mail to some 1,800 current and prospective clients and 200 competitors.

The first two mailings brought two jobs—and lots of leads from competitors, he says. "We refer work to them, and they do the same for us. There's more than enough work to go around." ❑

PHOTOGRAPH: TIM REDEL / CHARTS: ELIOT BERGMAN

# HANDS ON

RESOURCE

## On-the-road education

Business-management books may be too remote from your own company's situation to be helpful. That's why Teresa McBride, while on the road for her $25-million computer-service business, McBride & Associates, in Albuquerque, reserves time to visit CEOs she hears about and admires. McBride comes away from those meetings with ideas for her own company.

From personnel-service firms McBride learned how to set up a detailed filing system and calculate billing time. She's also visited a CPA firm, law firms, an office-supply company, and even a fast-food restaurant.

"I'm rarely turned down," she says. "People are flattered to share what they've learned." ❑

FINANCE

## Collections by coupon

Soil Shield International has cleaned up its collections by stuffing a discount coupon in with invoices. If customers pay the invoice within 15 days, they'll get 5% off the next purchase of the company's fabric protector. "If a furniture retailer normally buys $1,500 worth, he sees a coupon worth $75 and says, Wow," says Mike Connolly, president of the $13-million-a-year company based in Fremont, Calif. "Because it looks like cash, it's more attractive than an offer in a letter."

In the four months after the first coupons were offered, the program helped slash average outstanding accounts receivable from 50 to 40 days. What's more, the coupon has encouraged future sales. ❑

## OPERATIONS

PARTICIPATORY PURCHASING

| How end-users get involved in personal-computer-purchasing decisions | Company size<br>Fewer than 100 employees | <br>100-999 employees |
|---|---|---|
| Determing the need | 75% | 81% |
| Recommending vendors, brands, or models | 27 | 17 |
| Approving brands specified | 11 | 3 |
| Approving expenditures | 11 | 8 |

Source: "The *InfoWorld* Landmark PC/MAC Acquisition Study," a survey of 3,098 companies, by IDG Research Services Group, Natick, Mass., 1990.

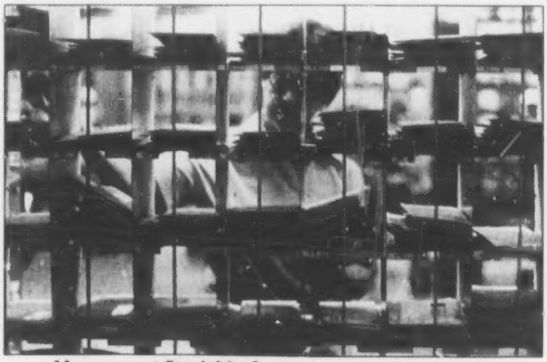
OPERATIONS

## Mail bonding

Keeping up with the mail can be a colossal task. To make sure significant correspondence is answered swiftly but carefully, $6.8-million Measurement Specialties Inc. has a two-step system, says Donald Weiss, CEO of the Fairfield, N.J., manufacturer of measurement devices.

First, within 24 hours a short note goes out to the party saying the letter was received and to expect further correspondence by a specified date—usually within a week. Next, the person in charge of the project that the letter concerns drafts a follow-up letter and lets it sit for a day before sending it around the office for others to read. In the case of proposal writing, the CFO might review the document for overhead expenses, a secretary for grammar, and an engineer for technical specifications.

"Too many companies dash off a reply," says Weiss. "Our customers are prepped for a timely response. And we avoid shooting from the hip." ❑



*Measurement Specialties Inc. answers every letter—twice.*

**CEO'S READING LIST**

### *The Prophet*

by Kahlil Gibran, Alfred A. Knopf, 1923

"Kahlil Gibran has important things to say about leadership and work. He writes, 'If [a teacher] is indeed wise, he does not bid you enter the house of his wisdom, but rather leads you to the threshold of your own mind.'

THE PROPHET
KAHLIL GIBRAN

"This year I published a management philosophy that managers at Clearpoint must buy into. It says that holding people back is inexcusable, and it encourages managers to look for employees who suggest ideas and demonstrate an obvious passion for what they do. Statements like 'We already tried that' and 'Leave that to the professionals' are spirit-crushing comments that kill initiative.

"You need the balance between reason and passion that Gibran discusses to be an effective leader. When you start a company, there's clearly a balance between reason and passion. Everyone around you is telling you that it can only come to a bad end. But you're so convinced and driven that you decide to go for it anyway. In 1982, when I started Clearpoint, the memory-board business was unfashionable. Things like electronic games were hot. We were a long shot. Now we have projected revenues of $75 million for 1990 and five international subsidiaries."

—Vincent Bono, CEO,
Clearpoint Research Corp.
Hopkinton, Mass.

PHOTOGRAPH FPG

# HANDS ON

**MEETINGS**

## The week that was

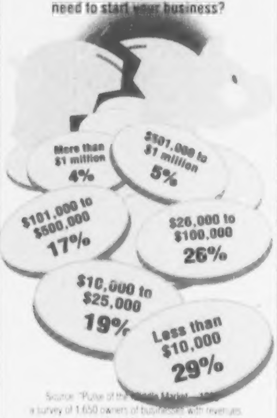
"In a small company everyone wears several hats," says William Barton, CEO of Overland Data Inc., a San Diego computer peripherals maker. "Since our early days we've held weekly ExCom [executive committee] meetings to go over the financial health of the company." Now the $7-million company has 53 employees, all welcome to attend the evening meetings. More than half do so regularly.

"When a company grows 40% annually, there are enough changes in a single week to make a significant impact on the company," says CFO Charlie Monts. Every meeting covers cash position, shipments, customer service reports, and production goals. "Employees know we aren't profitable every month," says Monts. "And they understand when we can't afford to buy supplies in volume or hire another person." ❑

### CAPITAL

START-UP REQUIREMENTS

**How much capital did you need to start your business?**

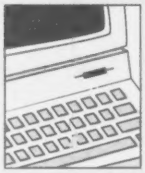


Source: "Pulse of the Middle Market—1990," a survey of 1,650 owners of businesses with revenues ranging from $2 million to $100 million, by BDO Seidman, New York City

**ON THE CHEAP**

## BUDGET DATABASES

*By Cary Lu*



Do you need a complex database program for your desktop computer? Not if you need only an electronic version of your Rolodex. You may already have the tool you need: a word processor or spreadsheet program.

To use a word processor as a database, simply enter the data as text. To retrieve information, use the search or find command to locate anything you have typed. If you want the data displayed in a particular order, enter the information so that each record is a paragraph. The first word of the paragraph should be the keyword, such as a last name. The major word-processing programs can sort paragraphs alphabetically by the first word.

Although a word processor doesn't have the flexibility of a database program for reorganizing or producing varied reports, it does have some advantages. Unlike most database programs, word-processing programs let you enter as much text as you want in each record, and you can search for text anywhere.

It's easier to manipulate databases on spreadsheet programs than on word processors. All the major spreadsheet programs include a fairly comprehensive set of database functions. You can select by criteria (for example, find addresses with zip codes between 00000 and 19999) or sort on any part of the record (last name, city, and so on). But spreadsheets are less convenient than word processors are for long text notes, since a typical spreadsheet cell is limited to about 250 characters.

If you want to create your own screen format for entering and viewing data, you'll need a database program. For good features at a modest price, consider PC-File, which costs $149.95 for IBM PCs and compatibles (from ButtonWare, in Seattle, 206-454-0479). FileMaker Pro for the Mac is a good choice for $299 (from Claris, in Santa Clara, Calif., 408-727-8227). ❑

**COMPENSATION**

## Part-time bonuses

Most companies wouldn't think of paying bonuses to part-time workers. But Bulk International, which relies on high school students and other part-timers to staff its 25 company-owned retail stores, includes everyone in its bonus program. "The level of customer service can have a huge impact on what people buy," says Tom Cavalli, vice-president and CFO. "So employees are given an incentive to go that extra mile."

The company, located in Troy, Mich., sets monthly sales goals for individual stores during holiday seasons. If the target is met or surpassed, part-time employees can earn anywhere from 50¢ to $1 an hour on top of the $4 to $5 an hour they're guaranteed. Bulk International began offering the bonuses a year ago in hopes of generating more sales volume.

It's succeeded, notes Cavalli. "And one of the great things about this is that it's self-funding." ❑

**COMMUNITY RELATIONS**

## Hammer it out

It's easy to lose that loving feeling in a fast-growing company. Bryan Beaulieu, CEO of Skyline Displays Inc., a $45-million Burnsville, Minn., maker of portable trade-show exhibits, was looking for a way to unite his 250 employees and 350 independent distributors. "We had drifted apart," he admits.

So, for the annual sales meeting, instead of hitting the golf course, Beaulieu organized a project everyone would remember: building a playground. Area residents volunteered time and equipment; employees and the distributors donated engineering and carpentry skills. The cost? Four days of work and $60,000—the price tag of the usual trek to a golf resort. The event was filmed, and the tape is used for recruiting.

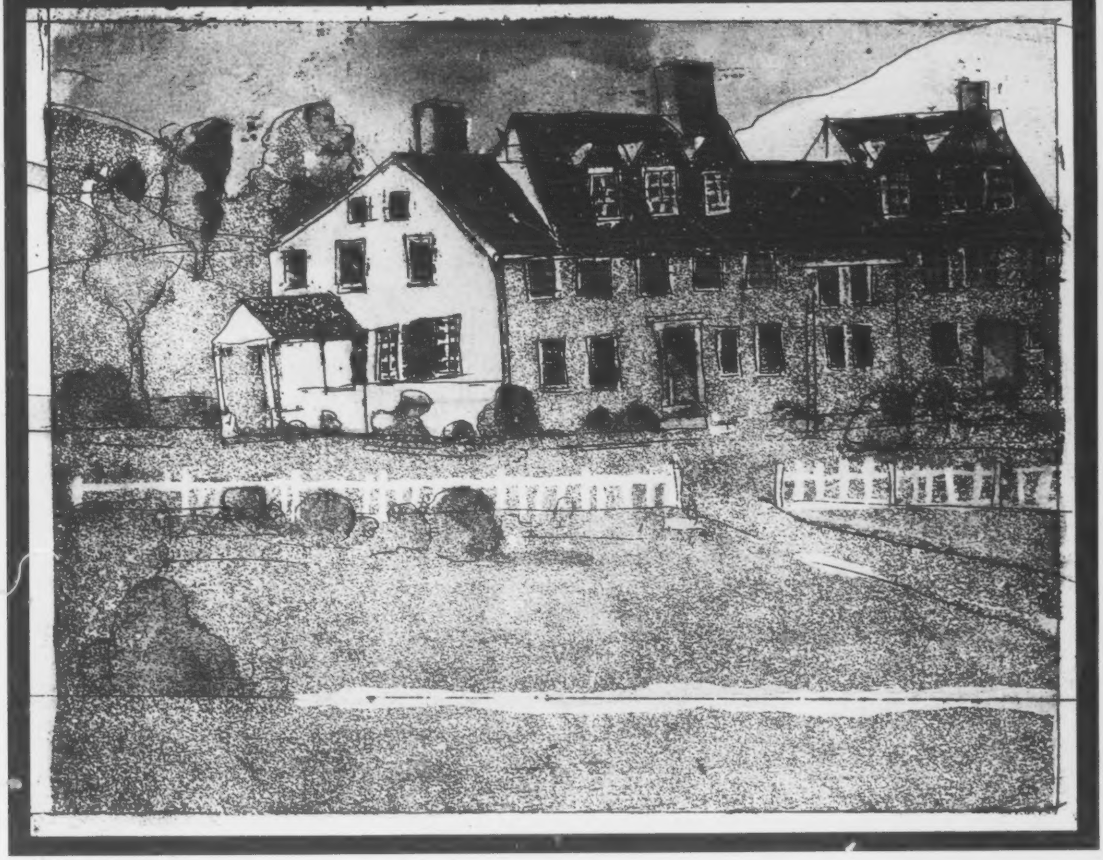
*CEO Bryan Beaulieu*

"Whenever we have a bad day," comments Beaulieu, "we go down to the park, watch the kids playing, and get revitalized." ❑

*Reported by Teri Lammers, Sara Baer-Sinnott, Paul B. Brown, Susan Greco, and Bruce G. Posner.*

ILLUSTRATION: BRUCE SANDERS / PHOTOGRAPH: JOHN DEMARCO

## BUSINESS FOR SALE



# VT. COUNTRY INN

**THE BUSINESS** Your basic mountain-cuddled, village-greenside, Vermont country inn—a living cliché. White clapboards, pumpkin-pine floors, a porch full of rocking chairs. Once a stagecoach stop, the inn now houses 34 guest rooms, a 60-seat restaurant, a separate lunch and breakfast room, and a tavern. Rates are $160 a night for two, MAP—midprice for the area.

**FINANCIAL SUMMARY** (in $ thousands)

| | 1988 | 1989 | 1990 |
|---|---|---|---|
| Gross sales | $844 | $1,024 | $1,066 |
| Net profit before taxes, depreciation, and owner compensation | 131 | 272 | 295* |

*projected

**PRICE** $2.15 million

**OUTLOOK** There's plenty to be happy about. The property is charming, the location popular, and the restaurant strong and profitable. The inn's cost of goods sold in the food-and-beverage category—often a sinkhole for cash—is running at an excellent 24%. Downsides? A room occupancy rate that's off-the-chart bad at 21% (closer to 40% would be normal for this area) and a regional economy that may or may not pillage such retreats as this.

**PRICE RATIONALE** Potential is what's being sold here, plus an existing trade that appears solidly—if not remarkably—in the black. Pump up the occupancy rate, which the owners claim to have ignored, and the bottom line sparkles; like incremental airplane-seat sales, incremental room sales are almost pure profit. The price-earnings multiple of 7.29 isn't out of line for an industry that can fetch multiples of 8 to 10.

**PROS** Most of the above, especially if you believe the occupancy glass is half full instead of half empty.

**CONS** Food and drink sales amount to a disproportionate 75% of total sales, compared with 40% at most inns. Given that the current owners are also the chefs—and are leaving—that imbalance could prove fateful. And do you really want to count on *increasing* occupancy while the economy around you slumps?

Inc. *has no stake in the sale of the business featured and cannot confirm the accuracy of financial or other information offered by the seller. Inquiries should be directed to Country Business Inc., Manchester Center, Vt.*

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THE MAGAZINE FOR
GROWING COMPANIES

FEB. 1991

# WHY YOU SHOULD BUY A BUSINESS NOW

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## STEAL THIS STRATEGY

How to grow using the best ideas from other companies

**PLUS:**

The ideal collection letter
Searching for hidden cash
Controlling legal costs

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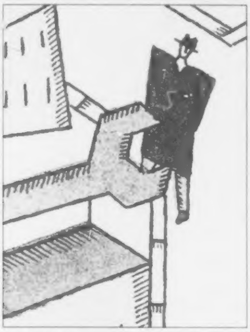
**108 Business for Sale**

## INC. COVER STORY



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Using the best ideas from big companies in his business

**90 Kamran Elahian**
Controlling legal costs by monitoring his bills

COVER PHOTOGRAPH
by Patrick Harbron

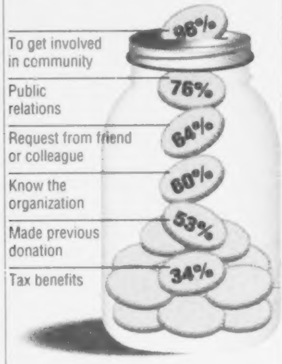
# HANDS ON

A MANAGER'S NOTEBOOK

### CORPORATE PHILANTHROPY

I GAVE AT THE OFFICE

**Why small-business owners make charitable donations**



Note: Total is higher than 100% because of multiple answers

Source: "Corporate Charitable Contributions Among Small, Privately Owned Businesses in San Francisco," a survey of 75 firms with 100 employees or fewer, Institute for Nonprofit Organization Management, University of San Francisco, 1990

### SELLING

## Less is beautiful

Making a huge sale is great. But joy turns to regret if your customer gets stuck with merchandise and never orders again. "We don't believe in onetime deals," says Emery Klein, CEO of Alaron Inc., a $33-million electronics importer and custom product designer. So the Troy, Mich., company encourages customers to order less so their cash isn't locked up in inventory.

"We advise them to buy conservatively, and if the promotion goes well, we tell them, 'We'll be here for you,'" says Klein. When stores run low on an item, they can depend on Alaron to meet their needs, with delivery in about 10 days. "I'm a hero if customers have sold out rather than overbought. In the long run we end up selling more." ❑

### MERGERS AND ACQUISITIONS

## Trust me on this

When companies merge, the "acquired" employees are often uneasy about their new boss and their own job security. The result: lost productivity and low morale. To avoid that pitfall, Bruce Mancinelli, CEO of VM Systems Group Inc., a $10-million software company in Vienna, Va., conducted welcome interviews to make the new people feel at home.

On the day VM's acquisition of a division of Systems Center Inc. was announced, Mancinelli met with each of that company's 14 employees. He listened to their concerns and offered them official letters of employment, promising them their current salary, the same or similar job responsibilities, and comparable benefits. Within a week, all accepted.

"It's one thing to buy assets, another to get people involved," he says. "We wanted them to feel like contributors from day one." ❑

### CUSTOMER SERVICE

## Presidential hot line

There are customers out there who are simply afraid to complain—who'd rather switch companies than fight. The problem is, that can wreak havoc on repeat business and word-of-mouth advertising.

Clarke Otten, president of Professional Swedish Car Repair, in Atlanta, ferrets out nonconfrontational customers by telephoning all customers one week after they visit either of his two locations. He sets aside an hour or two a day to make 20 to 50 calls.

Customers remember that the president of the $1-million company called them and really feel serviced. And, "I can get them to admit what's bothering them and address the problem right on the spot," he says. The calls also keep his 12 employees on their toes. "They know I'm in touch with the front line and know better than to try to slip anything by," Otten says. ❑

*Clarke Otten gives customers the personal touch—by phone.*

### INCENTIVES

## Tailor-made rewards

If you rely on incentives to direct your team's efforts, thinking up new and different prizes can become a job in itself. Not so for Kirk Malicki, president of Pegasus Personal Fitness Centres, in Dallas.

When new physical-fitness trainers sign on with his personal-training company, he asks them to make a list of rewards, ranging in value from $25 to $200, that they'd like to receive for reaching weekly and monthly goals.

Instead of commonplace prizes, his 15 employees have opted for rock-concert tickets, limousine rentals, and half days off. Thanks in part to the customized incentives, sales have more than doubled since 1985. "They know what motivates them better than I do, so I just ask," says Malicki. ❑

### RESOURCES

## Good plan

Planning is the backbone of any successful start-up. But where do you begin? Try these three workbooks from the Oregon Small Business Development Center Network.

▪ *Your Business Plan* includes step-by-step instructions for preparing a business plan you can take to the bank. (A Spanish edition is available.)

▪ *Small Business Marketing* has a retail bent but is good for anyone just learning about topics such as media buying and advertising.

▪ *Your International Business Plan* outlines a method for expanding into overseas markets. Each title is available for $14.95 from OSBDCN, 99 West 10th Ave., Eugene OR 97401-3017; (503) 726-2250. ❑

CHARTS: ELIOT BERGMAN; PHOTOGRAPH: LYN SILER

# HANDS ON

**MANAGING PEOPLE**

## Office poll

Keeping participative-management promises with employees can be tricky. How can a manager delegate work and then give employees recognition for a job well done without making it sound as if it's coming down from on high? At Meridian Travel Inc., in Cleveland, CEO Cynthia Bender opted for a participative solution: turn pat-on-the-back duties over to the employees.

Once a month all 62 employees of the $21-million company write in their vote for who should be Employee of the Month. "Managers always have their favorites, but the employees know who pitches in and helps out," says Bender.

"It's important different departments don't become isolated," she says. "This makes employees notice others more and develops camaraderie." ❑

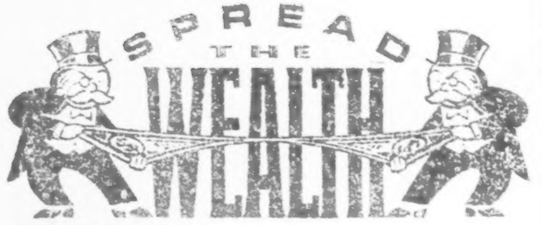
**MARKETING**

## Picture this

A picture is worth 1,000 words or, more accurately, $23,000, says Saul Rowen, executive director of Cali-Camp Summer Day Camp, in Topanga, Calif.

To cut costs, Rowen, instead of sending out 16-page brochures that cost 72¢ apiece to produce and mail, now sends just the brochure cover along with photos of camp life and a response card that can be sent in to request a complete brochure. At a cost of 43¢ a package, this practice saves 40% of the cost for brochures.

"We're saving money, and we're hitting our exact market," says Rowen, whose mailing to 46,000 prospects yielded 23 new campers worth $1,000 a head. ❑



**FINANCE**

## Stamp out debt

"When you send out a past-due statement, it makes for a nasty follow-up call," says Thom Holden, cofounder of Thom & Dave Marketing Design Inc., a five-employee firm with annual billings of $450,000, in Media, Pa. But a little humor can certainly help to melt the ice."

Holden and his partner, Dave Bell, created a "spread the wealth" rubber stamp for late notices. The bright green logo depicts two men playing tug-of-war with a dollar bill. "It warms up the conversation when I call," Holden says.

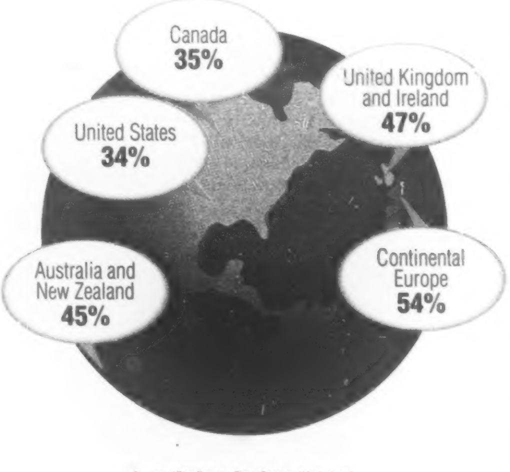
He and Bell came up with the idea when they started the company, 15 months ago, and were thinking of ways to help cash flow and speed up accounts receivable. With the exception of one client, bad debt hasn't been a problem for Thom & Dave. ❑

## INTERNATIONAL

### TECHNOPHOBIA

**Do you have trouble operating a computer?**

**Percent reporting "inadequate skills"**

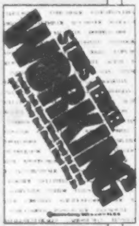


Source: "The Twenty-First-Century Workplace" survey of 1,344 businesspeople working around the world Priority Management Systems Inc., Vancouver, Canada, 1990

**CEO'S READING LIST**

*Working*, by Studs Terkel
Ballantine Books, 1985

"I agree with Studs Terkel's thesis in *Working* that people like working, try to do their best, and deserve more recognition. I want my people to understand that and not run roughshod over people. We will never have a time clock; we look at tasks completed rather than hours worked. I want to give people here the freedom to do their jobs.



"If you give a little recognition to your casual business acquaintances—the order-processing clerks, permit-review people, and receptionists—you'd be amazed to find out how much it means to them.

"As a general contractor we have contact with many people on a construction site. If you probe a little about the details of their jobs, you find they really do care about how well they perform.

"One of Terkel's interviews is with a hotel telephone operator. In her many years of working at the hotel she received one box of candy from a guest she regularly placed calls for. Years later she was still talking about that box of candy. It knocked me out.

"*Working* makes the people you see turn from urban camouflage into real people. I want our people to be able to *see* the people with whom they work."

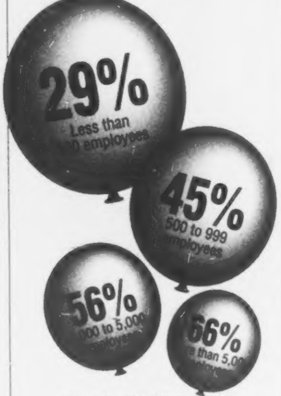
—Jack Nolan, CEO
Nolan Scott Inc.
Towson, Md.

# HANDS ON

## STRATEGIC PLANNING

DOWN THE ORGANIZATION

**Companies that have downsized in the past four years (by company size)**



Source: "Managing Change in the '90s —Revisited," a survey of 512 managers Right Associates, Philadelphia, 1990

RECRUITING

## Reach out

When your line of business is out of line with your region's industrial base, finding skilled employees is nearly impossible. Karmak Inc., which manufactures software for the trucking industry, is located in Carlinville, Ill., far from any hub of the high-tech universe. As a consequence, local help-wanted ads for software-savvy employees bombed.

Desperate to build his staff, CEO Richard Schien appealed to the families and friends of prospective employees. "Do you know someone with these skills who would like to move to the area?" his new help-wanted ads read.

"Many people would love to live in the area but think there wouldn't be work for them," says Schien. "This extends the reach of the local papers." Schien ran the ad each week for seven months and filled 15 positions as a result. ❑

ON THE CHEAP

## HELP AROUND THE OFFICE

*By Cary Lu*

Postal scales, binders, and label makers can help you perform basic office tasks. Good news: they've dropped in price.

■ **Digital-postal-scale** prices have dropped dramatically. The least expensive is Measurement Specialties' MS-12, which lists for $39.99 but sells for $25 from a variety of discounters. The MS-12 can weigh envelopes and packages of up to 33 ounces in 1/10-ounce increments. Hanson Scale, a division of Sunbeam, offers two low-cost scales, the 7205 ($84.95, list price), with a capacity of 5 pounds and 1/2-ounce increments; and the 7210 ($94.95), with a capacity of 10 pounds, increments of 1/4 of an ounce, and readings in ounces and pounds or grams. These models simply display the weight; they do not calculate the postage due. Pelouze Scale's PS2R1 scale ($145) calculates postal rates and displays both ounces and grams, but its capacity is limited to 2 pounds. Pelouze also has a noncalculating model, the PE5, which measures up to 5 pounds in 1/10-ounce and two-gram increments ($75).

■ **Binding machines** can turn a report into an attractively bound volume. Good binding machines used to sell for several hundred dollars, but VeloBind's DocuBind can put 112 sheets into a standard plastic comb binding. It costs just $179 ($100 at discount supply stores).

■ **Label makers** have been popularized on the high end by Kroy's lettering machines, which produce high-quality labels but cost between $229 and $2,195. On the low end, Esselte Pendaflex's inexpensive line of Dymo embossers, which produce raised letters on gooey plastic tape, range from $22 to $245.

Brother International's P-Touch III falls in between at about $249.95 ($150 at discount stores) and prints quality labels in a variety of styles and colors on white or clear tape. It has a small keyboard and a six-character LCD screen so you can do basic editing. Besides its utility, the P-Touch is fun. Keep it away from kids, though, unless you want to buy a lot of tape.

Neither label makers nor computer printers are good at printing a single address label. Most label makers are limited to a single line of characters, and printers are designed for full-size paper. The Seiko Instruments Smart Label Printer plugs into a computer and produces address-size labels one at a time. The tiny $249.99 ($200 from discounters) printer works only with a special label stock that comes in one size and costs about 3¢ a label. The Smart Label printer comes with software for either IBM PCs and compatibles or for Macintoshes. But if you have a Macintosh, look for the LabelWriter printer from CoStar (800-426-7827); it's the same Seiko printer for the same price, but CoStar's Mac software is more flexible. ❑

STRATEGIC PLANNING

## The calendar method

How do you keep your employees focused on strategic goals? At Cleveland-based Globe Metallurgical Inc. managers use a master calendar that shows which team members are working on what. The calendar keeps the 30 managers at the $100-million-plus producer of metal alloys on track for the year and lets them know who they can go to for help.

On the calendar the blocks for each day contain shorthand references to Globe's five-year plan for improving quality and cutting costs. That plan is a 20-page list of nearly 100 numbered items. So one day's calendar entry might read, "#56—Curt Goins, visit Union Carbide Corp., perform supplier quality audit." Managers can refer back to the numbered plan for more details and deadlines.

"It's not so much a matter of accountability as what we need to do and when," says Goins, who serves as director of quality at the 250-employee company. "The calendar prods you." Measures like this helped Globe win the Malcolm Baldrige National Quality Award in 1988. ❑

1991
February
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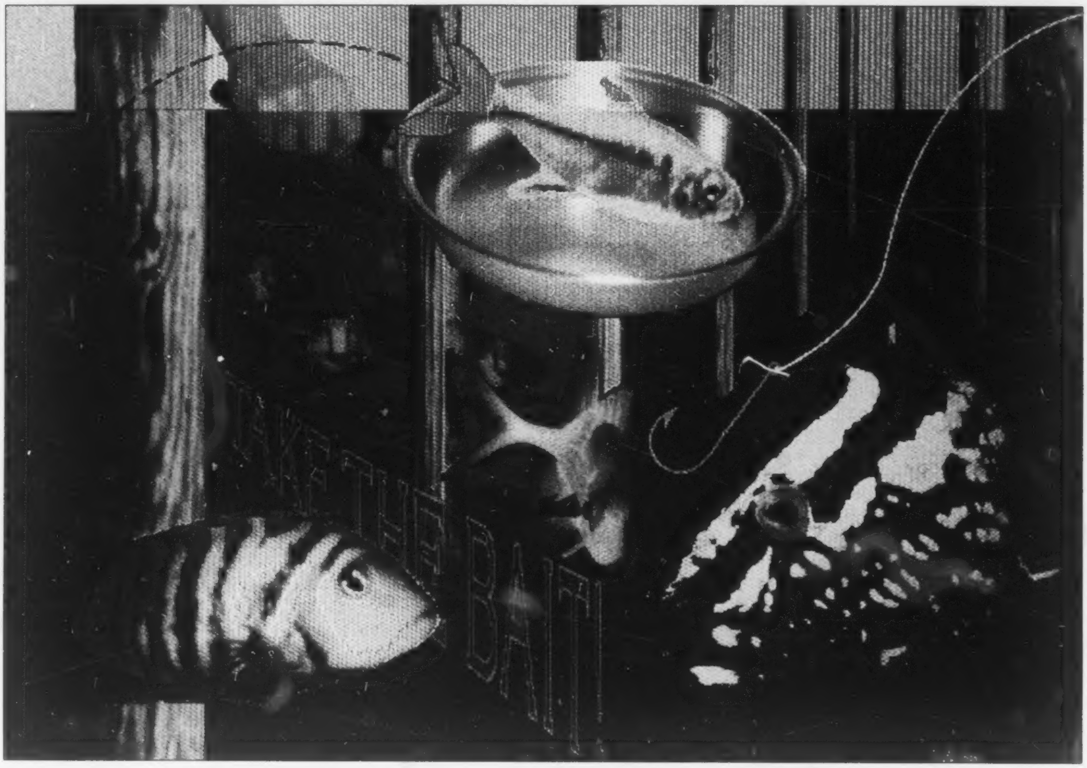
*Reported by Teri Lammers, Alessandra Bianchi, and Susan Greco*

ILLUSTRATION: BRUCE SANDERS

# BUSINESS FOR SALE



## FLA. FISHING PIER

**THE BUSINESS** An 825-foot fishing pier extending into the clear waters of the Gulf of Mexico. Visitors and locals from the tourist-rich, steadily growing region pay gate fees for the chance to land cobia, pompano, and blackfin tuna—some of which end up under the broiler in the walk-up restaurant that accounts for 60% of the pier's revenues.

**FINANCIAL SUMMARY** (in $ thousands)

| | 1988 | 1989 | 1990 |
|---|---|---|---|
| Gross sales | $155 | $172 | $190 |
| Recast pretax profit | 85 | 90 | 100 |

**PRICE** $590,000

**OUTLOOK** Fishing is a relaxed business—and a relaxed way of life is what's for sale here. Because the pier is surrounded by 20 miles of pristine national seashore and protected by a lease that runs until the year 2013, it would take nothing short of an act of Congress to erect a competing pier nearby. Though sales have been flat, profits are outlandish, and fishing in Florida is a growth sport—up about 10% since 1985 and still rising as far out as analysts can project.

**PRICE RATIONALE** What we have here, claims the owner, is a fail-safe cash cow; 53% net margins without even trying (no advertising, no price hikes, no expansion of services). In a business that's so reliant on real estate values and lease terms, the earnings multiple of nearly six is hard to assess. Some insiders say four would be more typical.

**PROS** Fish. Sun. And plenty of opportunity to increase sales (see cash-cow line above).

**CONS** Mother Nature. Hurricanes, namely—though since it was opened, in 1956, the pier has weathered several and is still structurally sound. The purchase price includes special equipment to replace worn pilings, and the current owner would contract to do the job if and when necessary. Still, who wouldn't have qualms about a piece of property on which insurance is too expensive to consider?

—*Alessandra Bianchi*

Inc. *has no stake in the sale of the business featured and cannot confirm the accuracy of financial or other information offered by the seller. Inquiries should be directed to Business Investment Group of North Florida, in Pensacola.*

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ILLUSTRATION: STEPHEN ELSTON

THE CASE STUDY OF A NEW BUSINESS: THE PLAN · THE FINANCIALS · WHAT THE EXPERTS SAY

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## HOW TO BENEFIT FROM SLOW GROWTH

WHAT CARL SCHMITT HAS LEARNED ABOUT THE ADVANTAGES OF RUNNING A BUSINESS DEDICATED TO LIMITED GROWTH

**One Company's Passion for Operating Without Wasting Business Resources**

**The nine cardinal rules for controlling payables**

**Business for Sale: A white-water rafting company**

CARL SCHMITT, FOUNDER AND CEO OF UNIVERSITY BANK & TRUST CO.

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COVER PHOTOGRAPH
by Bob Holmgren

# HANDS ON

A MANAGER'S NOTEBOOK

**BENEFITS**

## Student horsepower

Administering benefits may seem like red tape to you, but for some college students it spells career opportunity. The International Foundation of Employee Benefit Plans (IFEBP), a trade association for benefits professionals, pairs up companies with summer college interns who are trained to figure out how to fill in COBRA forms, crunch 401(k) numbers, process claims, and perform other such tedious tasks.

Interns usually work two consecutive summers for a company. The foundation provides nine days of training in benefits-administration basics to supplement sponsors' on-the-job training. For information contact Dean Ossanna, IFEBP, P.O. Box 69, Brookfield WI 53008; phone (414) 786-6700. ❑

**CAPITAL**

### BLOOD, SWEAT, & TEARS

How did you finance the growth of your company?

| | |
|---|---|
| Venture capital | 44% |
| Personal funds | 43 |
| Individual investors | 35 |
| Private placement | 30 |
| Bank loans | 28 |
| Loans from personal sources | 12 |
| Revenues from operations | 9 |
| Sweat equity | 3 |

Note: Total is higher than 100% because of multiple answers.

Source: An *Inc.* survey of 59 public companies reporting a five-year growth rate of 1,088% or higher since 1985.

*Scott Davis boosted productivity with a bonus plan.*

**COMPENSATION**

## You get what you pay for

Scott Davis, director of operations for Autodesk Inc., a Sausalito, Calif., software maker, was buying time—not productivity—by paying his production workers hourly wages. "People were working overtime who didn't need to, and the error rate was very high," he recalls. So he put his employees on salary and offered them a monthly productivity bonus—eliminating the incentive to work overtime. Six months out, errors had all but disappeared.

Five years ago, when Davis started the bonus system, he was managing 14 employees and the company had sales of $29 million. By 1990 sales had grown to $200 million, but his staff had grown only to 27. Today 90% of the production workers take home the bonus, which makes their pay 10% to 15% more than it would be if they still worked for an hourly wage. ❑

**BANKING**

## Courting candidates

Trying to get a banker's attention? It pays to plan ahead, as Rick Heiniger, CEO of RHS Fertilizing/Spraying Systems, a $2.6-million *Inc.* 500 company based in Hiawatha, Kans., has discovered. He knew back in 1987 that if his company's sales kept expanding, RHS would quickly outgrow the Hiawatha banks. But he also knew RHS was still too small to interest big banks. So he called the region's larger banks, explained his situation, and asked if his was the kind of company they might want to keep an eye on. A handful of banks responded positively, and Heiniger began sending them monthly financial statements.

"They thought it was a novel thing," says Heiniger. Today RHS has a loan from one of the banks he courted. "When we walked in with a request, it was as if we'd been with them forever." ❑

**MANAGING PEOPLE**

## Red-letter efforts

"We wanted to let employees know they should go the extra mile for clients," says David Fialkow, cofounder of National Leisure Group, a $40-million-plus travel agency in Boston. "But we needed to give them role models."

So a year ago he and his partner, Joel Benard-Cutler, erected the Wall of Fame, a bulletin board in the reception area covered with letters from customers praising employees. One note commends an agent-in-training for literally going the extra mile by biking over a ticket to a customer at the last minute. "We always knew how to handle bad letters; now we know how to handle the good," says Fialkow. ❑

**SALES**

## Customer teachers

Training inexperienced salespeople can be difficult. So Richard Cucco, chief operating officer of Camadon Inc., a $25-million seller of fax machines and copiers in Pewaukee, Wis., invites customers or prospective customers into training classes to talk about how purchasing decisions are made. Some keys to a successful session: trainees prepare their questions in advance, and everyone remembers the meeting will not be used for selling.

What customers have to say has great credibility with students. And customers tend to be flattered by the company's interest. "They're talking about themselves for an hour and a half, which everybody likes to do," says Cucco. ❑

CHARTS: ELIOT BERGMAN, PHOTOGRAPH: JOHN HARDING

# HANDS ON

**BOARD OF DIRECTORS**

## Worker on board

CarToon Complete Auto Service Inc., a $250,000 garage in Durham, N.C., can't compare in size with national chains, but chief executive Jerry Hiester does something the big guys don't. He includes the shop manager—a working mechanic himself—on his company's board of directors.

Having Don Anderson, the hands-on manager, at board meetings has helped the five-person company steer clear of overly ambitious plans. "We thought about expanding into transmission services—a high-ticket item—but Don pointed out that we just don't have enough hands and equipment," explains Hiester. "So we're going to stick to what we're good at."

Anderson holds the same voting rights as the rest of the board, which also includes Hiester's equity partner, lawyer, and CPA. "The others are all there in suits and ties, and they listen," says Hiester. "It makes Don feel better about his job." ❏

**ON THE CHEAP**

## EXPANDING HARD DISK STORAGE

*By Cary Lu*

No matter what the capacity of your hard disk drive, sooner or later you will run out of space. But before you go out and buy a larger drive, consider two alternatives: higher-density storage and compression.

■ **Higher-density storage** is the simplest and best solution for increasing the capacity of your hard disk drive. Replacement hard disk controller boards for IBM PCs and compatibles are available from Perstor Systems Inc. ($199 to $275; 602-894-3494). These can increase the capacity of common hard disk drives by about 80%. And unlike compression products, a hard disk drive controller board does not take up precious RAM memory.

■ **Compression** analyzes a file's contents and codes for recurring patterns—the word *the* might be replaced by a 1, for example. Compression can increase your disk drive's capacity by about 80%. If the compression is done purely by software, the process takes longer every time you save a file—and more time later to expand the file for use. But by adding a specialized accessory hardware board to your computer, compression can be performed far more quickly.

Although many programs can do compression, only a few do compression invisibly so the computer appears to operate normally. On IBM PCs and compatibles, Stac Electronics (619-431-7474) offers Stacker Coprocessor Hardware ($229) and Stacker Software ($149), a software system for laptops and other models that can't accept hardware accessories. For the Macintosh, the DoubleUp hardware compression ($229 from Sigma Designs Inc.; 415-770-0100) works on Mac II models. It uses a software interface called DiskDoubler, which is also available separately for software compression on recent Mac models ($79 from Salient Software, 415-321-5375). ❏

**CUSTOMER RELATIONS**

## Pushing the envelope

Time was, when sending Christmas cards was an effective way to plant your company's name before current and prospective customers. "People can't help feeling warmly about you," says John Kahl, president and CEO of Manco Inc., a $60-million marketer of a line of tapes, weather stripping, and mail supplies. But, says Kahl, there is only so much warmth to go around. So many companies now send cards that yours can get lost in the shuffle. That's why he has added other, less popular holidays to his mailing roster: Thanksgiving, St. Patrick's Day, and the Fourth of July, to be specific. "It's a good way to break through," he claims.

To heighten interest, he has the cards designed in-house so they're different from run-of-the-mill cards. "People open them up just to see what the next one will look like," says Kahl, whose mailing list includes some 30,000 people. "It's a much more personal way to reach them." ❏

**MEETINGS**

## Reality check

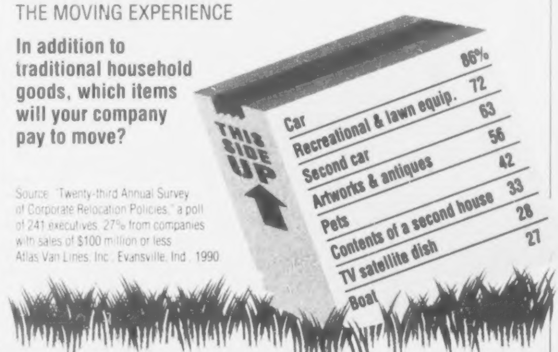
As district manager for Bridgeman's Restaurants Inc., a chain based in St. Louis Park, Minn., Steve Lampi had to run interference between store managers and corporate headquarters whenever it handed down some harebrained scheme. So when Lampi became operations manager, in 1987, he formed a committee of six shop managers. The group was to be consulted on menu additions and store improvements to help avoid confusion and costly mistakes.

When headquarters recently slated fresh-baked muffins to appear on a new menu, the committee pointed out that some stores lacked the bakery equipment needed to deliver the goods. So instead of misprinting the menus, simply *muffins* was added. "The meetings have saved us a lot of money, time, and aggravation," says Lampi, who became president of the company last April. ❏

## RELOCATION COSTS

THE MOVING EXPERIENCE

**In addition to traditional household goods, which items will your company pay to move?**



Source: "Twenty-third Annual Survey of Corporate Relocation Policies," a poll of 241 executives, 27% from companies with sales of $100 million or less. Atlas Van Lines, Inc., Evansville, Ind., 1990

*Reported by Teri Lammers, Susan Greco, Joshua Hyatt, and Martha E. Mangelsdorf*

ILLUSTRATION: BRUCE SANDERS

# BUSINESS FOR SALE

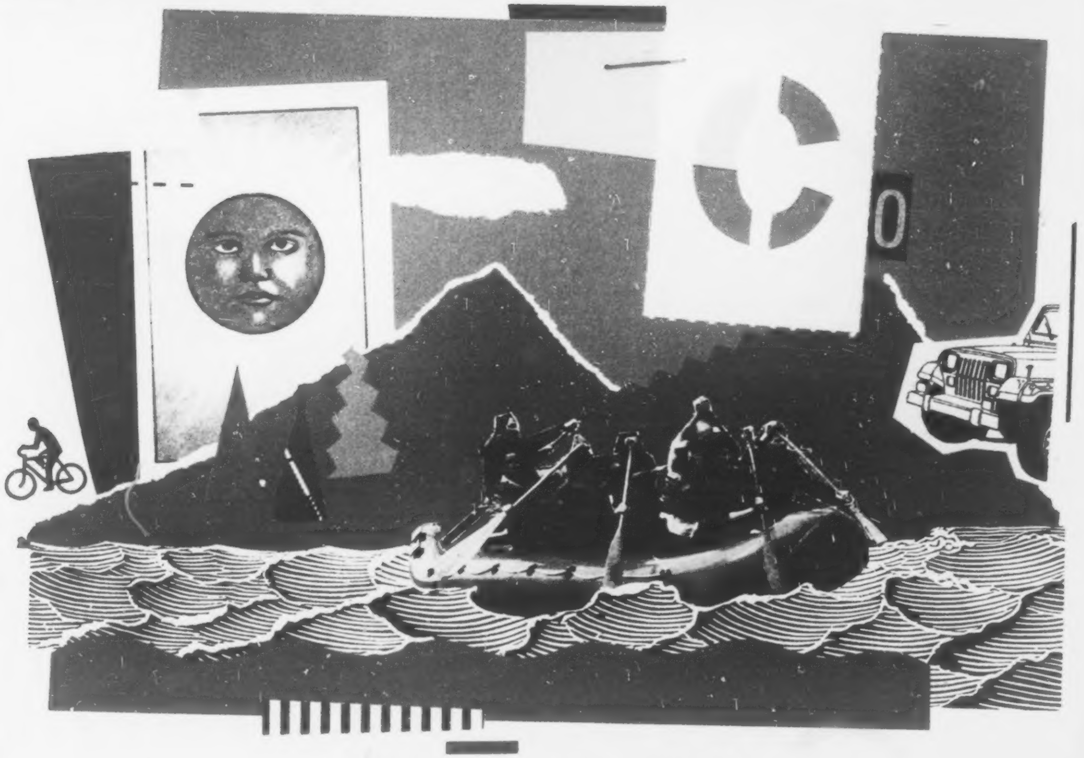


ILLUSTRATION: BOB HAMBLY

## COLO. WHITE-WTR RAFTING CO.

**THE BUSINESS** A 19-year-old company providing a backcountry smorgasbord: white-water rafting (good for 75% of revenues), bicycle tours, high-mountain jeep excursions, and a concierge service that coordinates travel to all of the above.

**FINANCIAL SUMMARY** (in $ thousands)

| | 1988 | 1989 | 1990* |
|---|---|---|---|
| Sales | $452 | $524 | $482 |
| Recast pretax net income before debt, depreciation, & owner compensation | $135 | $133 | $130 |

*projected

**PRICE** $350,000

**OUTLOOK** Wilderness operators are dependent on a finite resource: the permits that grant access to the great outdoors. Renewable annually, the permits amount to ownership of market share, and this company has plenty of them. After taking over other operators—and acquiring their permits—it currently uses just 80% of its allotted number of "man-days" per year on the river. The unsold but locked-up slots may come in handy: raft riding and mountain biking are still on the rise nationwide.

**PRICE RATIONALE** What's for sale here are the permits, sundry sporting equipment, and a business with a history of roughly 25% net margins. Still, wilderness companies are tough to price. Rafting operators in desirable areas—such as this one—can sell for amounts as great as the annual gross (which renders this price a bargain), amounts equal to 2.6 times cash flow (this company's multiple is 2.7), or amounts that resist all statistical explanation. This is art, not science.

**PROS** A proprietary grip on market share, allegedly loyal employees, cooperative current owners (who'll remain nearby and available for hire), and room to grow. Winter activities could be expanded without capital expense. An antidote to corporate burnout?

**CONS** What's market share worth if the market is evaporating? Last year business at this particular location was down. Is this a yuppie pastime whose time has passed? *—Alessandra Bianchi*

Inc. *has no stake in the sale of the business featured and cannot confirm the accuracy of financial or other information offered by the seller. Inquiries should be directed to Mountain Business Brokers, in Aspen, Colo.*

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MARCH 1991 VOL. 13 NO. 3

CASE STUDY: CUSTOMER SERVICE THAT HAS THEM COMING BACK FOR MORE

# Inc.®

THE MAGAZINE FOR GROWING COMPANIES

## THE TRUTH ABOUT START-UPS

SURPRISING INSIGHTS INTO WHY NEW BUSINESSES FAIL OR SUCCEED

Learning to Budget

Anatomy of a Part [illegible]

Business for Sale: A California Vineyard

How to Deliver Bad News

THE HOTTEST UPSTART: TIM DEMELLO

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COVER PHOTOGRAPH
by John Madere

# HANDS ON

A MANAGER'S NOTEBOOK

MARKET RESEARCH

## USSR yellow pages

It hasn't been easy for U.S. companies to trade with private businesses in the Soviet Union. Few people know where those businesses are, since the USSR lacks the most basic market research tool of all—telephone directories. But now comes the first compendium of Soviet private enterprises, published by a venture between FYI Information Resources, in Washington, D.C.; Cooperative Reserve, in Dnepropetrovsk, Ukraine; and North River Press, in Croton-on-Hudson, N.Y.

The English-language edition, the *Soviet Independent Business Directory*, contains key information—size, contacts, activities, addresses, and phone numbers—on more than 2,100 Soviet companies in 70 industry sectors, from antiques to sporting goods.

For information write to FYI, 735 8th St. SE, Washington, DC 20003. Or call (202) 544-2394; fax (202) 543-9385. To order the English edition ($110), write to North River Press, Box 241, Croton-on-Hudson, NY 10520. Or call (914) 941-7175; fax (914) 941-9579. ❑

*Kaye Counts relies on an employee-run safety committee.*

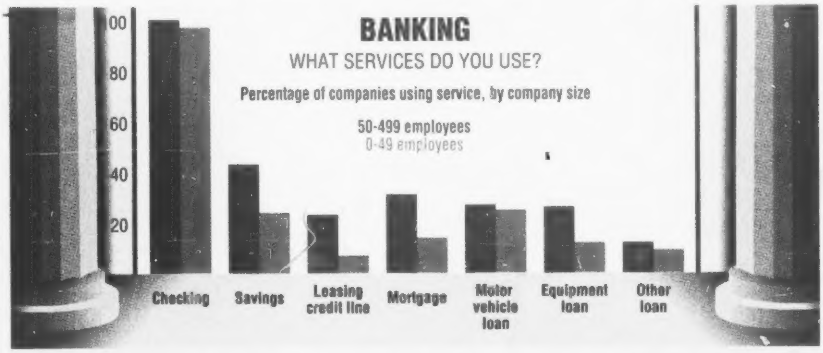
MEETINGS

## Safety first

Old work habits die hard. Sun Sportswear, a $73-million apparel company in Kent, Wash., counters the problem of getting employees to improve their work environment by letting them decide what needs to be done.

An employee-run safety committee, comprising a rotating group of 12 volunteers from various departments, helps manage the company's environment by suggesting better ways to store hazardous materials and educating fellow employees on safety procedures. The group meets monthly; employees receive a paid day off for their services.

"The committee conducts a no-holds-barred tour of inspection and presents management with an informal report card," says chief operations officer Kaye Counts. "It's quite a service for the company and employees." ❑



Source: "Banking Markets and the Use of Financial Services by Small and Medium-sized Businesses," a survey of 3,405 companies. Staff Studies Series, No. 160; Board of Governors of the Federal Reserve System, Washington, D.C., 1990

CUSTOMER SERVICE

## Obedience school

Sudden sales success can overwhelm a young company. If your customer-service staff is too small to handle a barrage of calls, take a page from Meridian Travel, in Cleveland.

New corporate clients of $21-million Meridian spend a half day attending a "travel smart" seminar, complete with catered lunch, hosted by Meridian's corporate relations department at the customer's offices. Seminar topics are based on the glitches travelers most frequently report, and include "insider" travel tips as well.

"After the seminar customers feel in control, and we have fewer crises to manage on our end," says CEO Cynthia Bender. ❑

CAPITAL

## Tech funds

Looking for funding for technology-related product development that doesn't involve giving up equity? One possible source is the Israel-U.S. Binational Industrial Research and Development (BIRD) Foundation. The foundation will finance up to 50% of product-development costs for promising projects that involve some sort of joint venture between an Israeli company and a U.S. one.

BIRD invests carefully and has a track record of $2 billion in product sales generated by projects in which it has invested $69.6 million.

For more information contact the BIRD Foundation, 3 Tevuot Ha'aretz St., P.O. Box 39104, Tel Aviv 61390, Israel; phone 972-3-470710; fax 972-3-498341. ❑

CHARTS: ELIOT BERGMAN, PHOTOGRAPH: KEITH BROFSKY

# HANDS ON

**INTERNATIONAL**

## Translation, please

When you export to foreign countries, translating your product into other languages can be expensive. Roy Kessler gets his distributors to share the burden.

Kessler's $6-million Tempe, Ariz., company, PC Globe, put an atlas onto software. It's a logical product to distribute internationally, but that requires translation of software text and instruction materials.

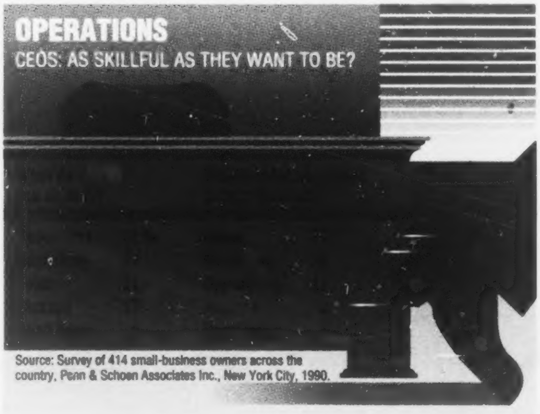
Distributors who wanted to sell versions of the product in PC Globe's smaller markets—Dutch, Swedish, and Finnish—translated the material themselves, saving PC Globe the up-front cost of translation. And PC Globe retains the foreign copyrights, allowing it to add more distributors from those countries later if necessary. ❑

**MARKETING**

## Old booths

Thinking about investing in a trade-show booth? Buying a used one can offer substantial savings, says Joseph Mallon, executive vice-president of NovaSensor, a $10-million Fremont, Calif., manufacturer of silicon sensors.

NovaSensor had a limited marketing budget but wanted to make a big impression at trade shows. So Mallon turned to a San Jose company that specializes in selling used booths, and for the $34,000 he spent to buy and alter a large corporation's old booth, he got a booth that would have cost $150,000 to build from scratch. Plus, he was able to remodel it more quickly than a new one could have been designed. ❑



**OPERATIONS**

CEOS: AS SKILLFUL AS THEY WANT TO BE?

Source: Survey of 414 small-business owners across the country, Penn & Schoen Associates Inc., New York City, 1990.

**COMPENSATION**

## Timely sales incentive

When collections slip, the last thing you want to do is give customers a reason *not* to pay you. "Unhappy customers tend to stretch their payments or not pay at all," says Craig Tysdal, vice-president of sales for Network Equipment Technologies. To bolster customer service and get payments in the door, NET pays sales managers bonuses based on the age of accounts receivable.

Twice a month, the Redwood City, Calif., company publishes a profile of receivables, broken down by region and district, that shows which accounts are current and which are 30, 60, or 90 days old or more. The bonus, paid quarterly, is determined by how well managers meet goals for each level of the aging schedule. The more the sales manager exceeds the goals for a particular level, the larger the bonus he receives. Tysdal reports that since the bonus system was set up, a year ago, the number of receivables that are more than 90 days old has been cut in half. ❑

**MANAGING PEOPLE**

## Improving literacy

"Who wants to be the first person to raise his hand and say he can't read?" asks Roland S. Boreham Jr., chairman and CEO of Baldor Electric Co., headquartered in Fort Smith, Ark. So to coax workers in Baldor's Columbus, Miss., plant into an on-site literacy program, Boreham used video testimonials from six employees who had the courage to participate in the program and tell others how it helped them learn to read. Boreham used an employee interviewer and one VHS video camera to shoot the testimonials.

About 25% of the 350 workers in Columbus enrolled in the program. "The messages really hit home," says Boreham, who expects fewer mistakes on the company's electrical-motor assembly lines because more employees can read manuals, job specifications, and invoices. ❑

**CEO'S READING LIST**

## *The Grapes of Wrath,*

by John Steinbeck, 1939

"*The Grapes of Wrath* is about people like my parents, who were Okies. My father was a Dust Bowl worker who migrated from Stillwater, Okla., to California and was mistreated. The book makes you realize that a lot of human potential is overlooked because of prejudice against other cultures. It influenced the way I manage my employees.

"I now have 60 Asian immigrants working in my jewelry-design and -manufacturing business. Like the Okies in *The Grapes of Wrath,* the Asian refugees had to give up everything to get here, and have found that it is not the promised land.

"To help the Asian workers adjust, we offer weekly English lessons. And we have ESL lunches, at which everyone brings in a native food and we phonetically spell out the English word for it on each dish.

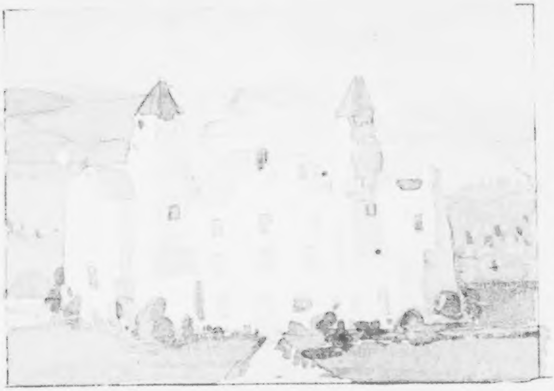
STEINBECK
THE GRAPES OF WRATH

"The American-born managers here might not think to invite the Asian supervisors to a seminar or a rep retreat, because they figure the Asians won't understand anyone or get anything out of it. I always invite them even if they can't communicate very well. They're so enthusiastic that in the end I think they end up learning more than anyone else."

—Tabra Tunoa, CEO
Tabra Inc.
Fairfax, Calif.

*Reported by Teri Lammers, Leslie Brokaw, Jay Finegan, Susan Greco, and Martha E. Mangelsdorf*

# THE AMERICAN DREAM



*Nineteenth-century turreted stone château*

*Sixty acres of newly terraced vineyards*

Napa Valley
Smith

*California wine country*

## BUSINESS FOR SALE

## CALIF. VINEYARD/WINERY

**THE BUSINESS** Two businesses, actually: a currently dormant but onetime award-winning winery on 123 Napa Valley acres (19th-century turreted stone château, Victorian horse barn, two swimming pools, etc.), and an operating vineyard, on 60 of those acres, which has been recently replanted and terraced with red-grape varieties. When the vines mature, in seven years, the winery and vineyard together can be expected to produce 30,000 cases of premium wines.

**FINANCIAL SUMMARY** (in $ thousands)

| | 1989 | 1990 | 1998 |
|---|---|---|---|
| Gross sales | $279 | $263 | $4,291 |
| Net profit | 159 | 143 | 1,861 |

Note: 1989 and 1990 figures reflect the vineyard operation only. Figures for 1998 are based on the assumption that the winery, too, will be running at capacity.

**PRICE** $5.9 million

**OUTLOOK** Are boutique wineries good businesses? Statistical evidence is unreliable; the industry is unusually secretive, and insiders claim that as many labels are sustained by ego as by cash flow. In this winery's favor are the 125% four-year sales increase posted by California premium wines in the face of declining domestic wine consumption overall, and the continually rising prices fetched by the area's Napa cabernet sauvignon grapes—up 109% over the past five years. The bad news? The number of wineries churning out premiums has also been rising, and it's never easy to push a $20 product in a saturated market. On-site tours and tastings help, and this winery is one of the lucky few in the county that have the requisite permits to accommodate visitors. Still, what this winery doesn't have yet is wine. An investment of several million dollars atop the purchase price will be needed before bottles are ready for sale.

**PRICE RATIONALE** It's the land that counts, and the $48,000 per acre that this property costs is at the high end of Napa County's $35,000-to-$50,000-per-acre range for developed vineyards. With the land comes potential: one analyst says the projected eventual profit margin of 43% isn't unusual, and neither is the seven-year wait to achieve it.

**PROS** A head start in planting by a vintner who, with a sister winery, has already proved himself a Napa star; the cachet of château living; the aforementioned healthy profit margin.

**CONS** Big-time risk. Sure, this vineyard won prizes for its early '80s cabernets, but will finicky enologists applaud its '90s vintages, too? And seven years from now, will the public want to buy them? It will take a lot of money to find out.

*—Alessandra Bianchi*

***Inc.* has no stake in the sale of the business featured.**

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APRIL 1991 VOL. 13 NO. 4

ILLUSTRATIONS: ROBERT ANDREW PARKER

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# Inc®

THE MAGAZINE FOR GROWING COMPANIES

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A NEW
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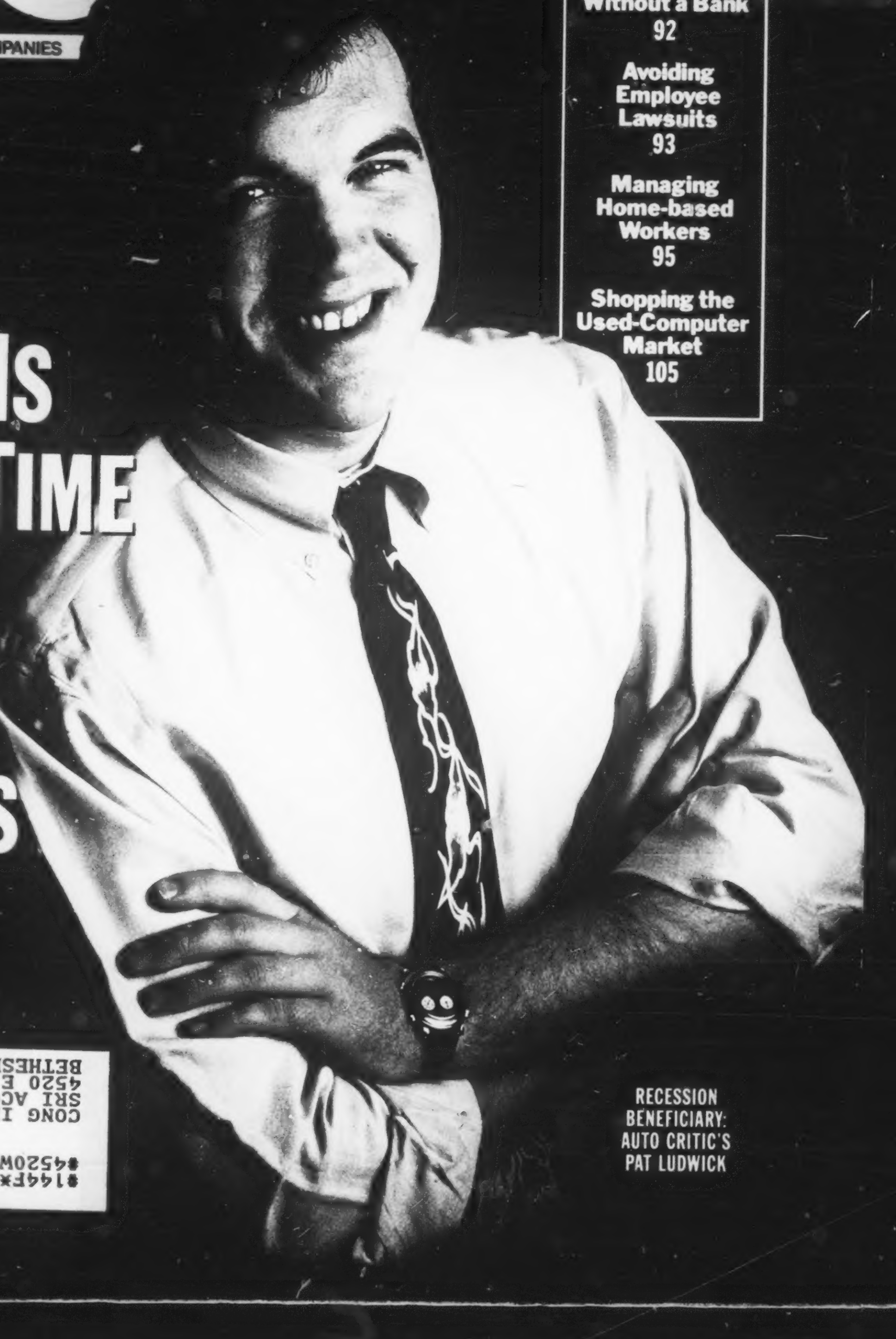
Tax Tips To Free Up Cash



RECESSION BENEFICIARY: AUTO CRITIC'S PAT LUDWICK

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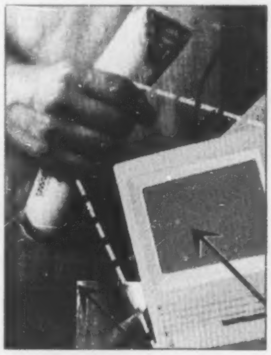

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COVER PHOTOGRAPH
by DAN BRYANT

IDEAS AND RESOURCES FOR GROWING A BUSINESS

# Hands On

## SALES & MARKETING

*Star-salesman-turned-trainer Dan DeJoy*

**SALES TRAINING**

### An In-House Sales School

IN A HURRY TO GET NEWLY HIRED SALESPEOPLE into their territories and selling? The rush may be costing your company more than you know in lost sales and in sales-force turnover. At Paychex Inc., a $120-million supplier of payroll and other business services, every new salesperson goes through seven weeks of training before even meeting a prospect. The result: new hires become productive (that is, start earning more than their draw) twice as fast as before, and turnover has fallen dramatically.

Gene Polisseni, vice-president of marketing, calculates that Paychex spends $3,500 per trainee to operate a professionally staffed school at the company's Rochester, N.Y., headquar-

*(Continued on next page)*

**LOCATION**

### Lower Your Rent

THE BEST OF TIMES? THE worst of times? That depends on which end of the lease you're negotiating. Before the recession Stuart Skorman, CEO of Empire Video Superstore, a small chain of video-rental stores based in Keene, N.H., had his eye on a large retail location that was renting for $85,000 a year. Today, he says, the rate has dropped to $45,000. Retailers and other storefront or mall businesses can take advantage of the recession to lock in lower rents, add more space, or grab a new location they couldn't have touched when landlords weren't so desperate.

Burt Hochberg, general manager of a Jackson Hewitt Inc. tax-service franchise in the Baltimore–Washington, D.C., area, offers the following advice:

- Assume any price a landlord quotes is negotiable.
- Deal directly with owners.
- Approach current lease holders about subleases.
- Can't rewrite the terms of your existing lease? Ask the landlord for a spruced-up amenities package.
- Look for deals that give you free rent for several months; maybe the landlord will reduce the front-end deposit.

*—T. R.*

**RESOURCE**

### Selling in Europe

**If you want to go over Europe with a fine-tooth comb, consider a daylong seminar called "Information Gathering in the European Community," which Fuld & Co. holds in major cities across the country. For more than 10 years, this company has been in the business of unearthing valuable information from unlikely sources. Now it's turning its attention to helping companies negotiate the maze of EC 1992 information channels. To see if the $795 price tag is worth it, read Fuld & Co.'s free newsletters that give the lowdown on EC 1992 country by country. Call (617) 492-5900 or fax (617) 492-7108 for more information.** ***—Teri Lammers***

### IN THIS SECTION

**AN IN-HOUSE SALES SCHOOL**
*The funny thing about Paychex's sales school? For the first three weeks, the word* sales *isn't mentioned at all*

**RESOURCE: SELLING IN EUROPE**

**LOWER YOUR RENT**
*Recession got you down? Use it to your advantage*

**REACHING INFLUENTIAL BUYERS**
*Identify key buyers and watch sales pour in*

**SETTING UP BRANCH OFFICES**
*Pat Kelly explains it all for you*

**Edited by Tom Richman**

PHOTOGRAPH: PHIL MATT

*(TRAINING, from page 85)*

ters. That amount includes instructors' salaries as well as transportation, housing, and meals for the trainees. It may seem like a lot, says Polisseni, but it's a lot less than the roughly $18,600 it costs Paychex to recruit, interview, hire, and train a replacement for a salesperson who gets fired or quits.

The thinking behind the Paychex approach is that every salesperson first has to know and understand the company's products. In Paychex's case, those are payroll and other administrative services provided to a national market of client companies. Consequently, during the first three weeks of the Paychex school, the 16 or so students that start every month take courses on tax laws and accounting principles, and study the services that Paychex sells to its clients.

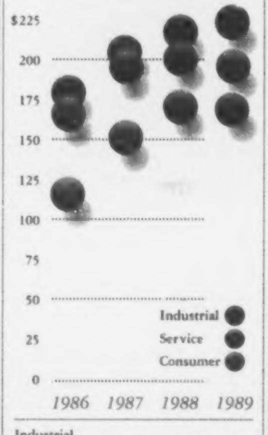
During the three weeks, the new hires live in company-owned condominiums, drive company-rented cars, and pay their expenses out of a company-granted stipend. After three weeks they take a comprehensive exam. If they don't pass, they go home to look for another job. Those who pass are sent to work for two weeks at a Paychex operations branch to learn firsthand what the company does. They also accompany branch salespeople on calls, but only to watch and listen.

In the last week, it's back to Rochester for more classroom work, now, finally, on selling skills. The courses include Sales Presentations, Visual Selling (reading the customer's body language), Closing, and Time and Territory Management. Only after graduation does the new salesperson get to solo on an actual sales call.

Paychex's school employs 11 full-time instructors—some former schoolteachers and some field personnel. Dan DeJoy, who runs the sales-training part of the curriculum, was Paychex's sales rookie of the year in 1988. He's committed to staying at the school for two years before going back to sales. "It's a good idea," he says, "to keep the teaching positions filled by people fresh from the field."

Even if you can't afford a full-blown sales school, Polisseni contends, whatever time you can spend teaching your salespeople about your company's specific products or services and procedures can help them get up to speed faster in the field. "Training is an investment that a progressive company can't afford not to make," he says. **—*T. R.***

*The Cost of a Sales Call**



| | 1986 | 1987 | 1988 | 1989 |
|---|---|---|---|---|
| Industrial | $179 | $207 | $218 | $225 |
| Service | 162 | 193 | 201 | 166 |
| Consumer | 118 | 152 | 172 | 196 |

** Median cost per call by industry; cost-per-call calculations based on travel and entertainment expenses and compensation.*

Source: Sales & Marketing Management's *"1990 Survey of Selling Costs," New York, 1990.*

PRODUCT LAUNCHES

## *Reaching Influential Buyers*

AT FRANKLIN INTERNATIONAL Institute Inc., it's called the "breeder effect." Others call it "seeding" their markets. In both cases it's the same idea. First, you identify key people whose actions or opinions will influence the bulk of your potential buyers. Get the product into their hands, and if they like it, the rest of the market will follow.

But even *giving* a product away takes some planning, especially when potential recipients don't know they want it. A small ($6-million) division of Lotus Development Corp., based in Cambridge, Mass., has started seeding the market for one of its products, Agenda. Agenda is a PC-based software program intended to help executives and middle managers manage their time better. As with electronic mail, says Paul Paget, Agenda's marketing director, "once your boss starts using Agenda, you almost have to."

So Paget identifies, city by city, the chief executives of smaller companies and the unit heads of larger corporations, and invites them to seminars. He'll use, for instance, the subscriber list of a business or trade magazine or newspaper to help him locate his targets. When appropriate, he gets the periodical to cosponsor an Agenda seminar to which he invites those key people. There, he shows the entrepreneurs and executives how the program works and, when the class is over, hands them a bag with the Lotus logo on it and a free copy of the $395 software and manual inside. If the seminar has worked, the bosses will get hooked on Agenda, and once they get back to their offices they'll be the best sales force Lotus could have.

Another company, Salt Lake City–based Franklin International Institute, has built itself from scratch to more than $52 million in annual sales in just six

*(Continued on page 88)*

CHART: ROSS CULBERT LAVERLY & RUSSMAN INC., NEW YORK; ILLUSTRATION: WARREN GEBERT

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*(LAUNCHES, from page 86)*

years by using a similar marketing strategy. The product, coincidentally, is a paper-based time-management system. When Franklin is conducting a time-management seminar at one corporation's work site, it will invite—gratis—one or two executives from other corporations. If they're impressed, Franklin's experience shows, they'll bring Franklin's training and time-management products into their own companies.

Both Franklin and Lotus count the products they give away as just another marketing cost. In Franklin's case, since it's proven that a single freebie given to a corporate manager can lead to the sale of hundreds of seminar slots in that executive's company, the cost of seeding the market is almost trivial. At Lotus, Paget calculates he'll more than break even if he can sell just one copy of Agenda for each one he gives away.

Follow-up to the seminar is essential to the selling process. Paget plans to call seminar attendees, periodically mail them a newsletter, and maybe run a sweepstakes for people who refer new buyers to Lotus. "We'll make it fun," he says. —*T. R.*

### MANAGING GROWTH

## *Setting Up Branch Offices*

OPENING A BRANCH SALES OFfice sounds simple, but many companies find that protecting the corporate culture. motivating employees, and keeping tabs on the cash are difficult to do from a distance. Patrick Kelly, CEO of Physicians Sales & Service Inc. (PSS)—a distributor of medical equipment and supplies based in Jacksonville, Fla.—has set up 26 branch offices since 1983, garnering an average of $2.7 million in sales per office. He always follows the same formula:

- **Promote from within for the sales manager slot.** Only top sales performers who have at least two years of selling under their belts and want to go into management are considered. Those he selects have clearly demonstrated their leadership abilities. Candidates with rural backgrounds are matched to rural territories and those with urban backgrounds to urban territories.
- **Grow your own salespeople for the four sales positions.** It's cheaper than hiring seasoned professionals, and internally trained salespeople usually haven't picked up bad habits at other companies. Kelly puts his recruits through a 24-week program in which they work as warehouse packers and truck drivers by day and are drilled on selling skills after work.
- **Add one local pro.** Kelly has found that a pro who already knows the territory can help cut the break-even time for a new branch in half.
- **Invest in sufficient support staff to free up the sales staff to sell.**
- **Locate the branch within same-day-delivery reach of another office.** That way, customers aren't left in the lurch if inventory runs out. The fewer the competitors the better, too. For PSS, a workable territory has at least 1 million people within a 200-mile radius of the office.
- **Stick to sales-call routes and schedules to foster customer loyalty and regulate orders and deliveries.** Week in and week out, PSS customers know to the minute when to expect their salesperson to place their orders.
- **Set target goals.** At minimum, each account is visited twice a month, and each large account weekly. Two days a week the sales managers work their own territories, calling on customers with their staff on the other days. Thirty sales calls per day is the target.
- **Stay in touch.** Supplement personal visits to branches with customer surveys to keep branches up to standard. Kelly visits each office twice a year, spending most of his time with salespeople. A quarterly customer-satisfaction survey is mailed directly to headquarters. Negative responses are sent to the territory's sales manager. —*T. L.*

# BANKING & CAPITAL

*VCs put cash into Albert Beedie's pocket*

VENTURE CAPITAL

## Secondary Stock Deals

TIME WAS, WHEN ALMOST NO VENTURE CAPITALIST worth an Hermès tie felt good about putting investors' money into an entrepreneur's pocket. That cash was for building businesses, not for buying houses in Aspen. But as venture capitalists become increasingly eager to buy into proven businesses they like, they are more willing to play by a looser set of rules—and they're putting big checks directly into founders' bank accounts.

Dismayed by the average returns of early-stage investments (less than 5% annually, by some estimates), venture people are scouting for safer bets. Some of the companies they're targeting were not originally venture-financed and don't really need money, and so are not prepared to give venture capitalists the privileges they're used to—preferred stock, voting control, and other special rights. But VCs are taking what they can get. "If we want to participate," says TA Associates partner Jeff Chambers, "we've got to be willing to buy secondary shares." During the summer of 1989, TA bought about $6 million worth of TSC, a three-year-old computer-systems-implementation company located in Chicago. Earlier that year TSC's president, Albert Beedie, had told other would-be investors that he wasn't seeking any more capital. So TA did its deal by purchasing stock directly from TSC shareholders. The venture people got 15% of the business and one board seat.

Such secondary stock deals are being designed to meet a range of founder needs. For ex-

*(Continued on page 91)*

CONSERVING CASH

## *Bartering Instead of Buying*

LOOKING FOR RELIEF from the credit crunch? To acquire the goods and services you need without decimating your dwindling cash? A growing number of companies are turning to barter.

In bartering, businesses swap what they have for things they need but don't want to pay cash for. By trading at the full price of the product (the cost plus your profit), you can boost your buying power while guarding your cash.

Traditionally, such transactions have been arranged directly between trading partners. But more and more deals are being booked through barter exchanges. For example, Chicago Barter Corp., based in Lombard, Ill., currently has in its network more than 1,200 members, who pay $500 to open an account and tap into anything being offered. In 1990, notes president Susan Groenwald, the company facilitated some $13 million worth of trading activity, a 44% increase in activity since 1989. The range of products and services obtainable is astounding. Last year Exchange Parts of America, a Chicago auto-parts company, traded its reconditioned brake parts for printing, remodeling, and catering services; this year it's negotiating to acquire trucking services through Groenwald's exchange.

Barter probably won't eliminate your need for cash entirely; many large transactions require at least some cash. But if you learn the ropes, you should be able to maneuver through leaner times with less cash on hand. *—B. G. P.*

**You can find out about local barter exchanges by contacting the two trade associations serving the industry: International Reciprocal Trade Association, in Great Falls, Va., (703) 759-1473; and National Association of Trade Exchanges, in Euclid, Ohio, (800) 733-6283.**

## IN THIS SECTION

SECONDARY STOCK DEALS
*Venture capitalists hungry for deals are placing big bucks directly in the pockets of founders*

BARTERING INSTEAD OF BUYING
*Fast relief from the credit crunch*

FIXED-ASSET PURCHASE PLANS
*Mike Madrid's novel solution to quick credit*

RESOURCE: HOW YOUR BANK EVALUATES YOU

BORROWING WITHOUT A BANK
*Need short-term cash? Look around you for sources*

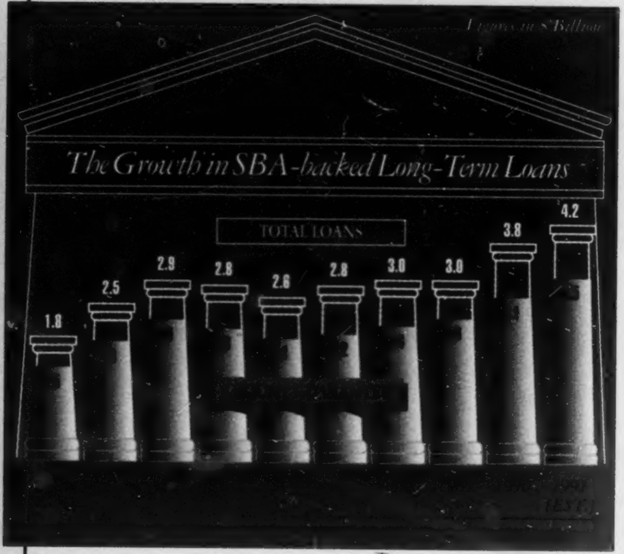
**Edited by**
**Bruce G. Posner**

PHOTOGRAPH: LEWIS TOBEY

*(VENTURE CAPITAL, from page 89)*

ample, a group of investors, led by Summit Partners, recently purchased a small block of the shares of Rosco Laboratories Inc., a supplier of light filters to entertainment industries. Stan Miller, the 58-year-old president and 100% owner, wanted to diversify his holdings for estate purposes. "I still wanted to grow the company," he says. "But I hesitated to put my name on more bank loans."

Some hard-liners continue to believe that giving founders a pile of money while they are still active in the business weakens their commitment. But the folks who invest in secondary deals don't see it as a major problem so long as founders still have the lion's share of their net worth tied up in the company's future. L. John Doerr, general partner of Kleiner Perkins Caufield & Byers, which participated in a $10-million deal with the founders of Intuit Inc., a software maker, says: "We're helping the company. The idea is to make it easier for these guys, not harder." *—B. G. P.*



**DEBT**

## *Fixed-Asset Purchase Plans*

NOTHING HURTS AN entrepreneur more than having to turn away new business because there's not enough cash on hand to meet the demand.

Mike Madrid, CEO of The Mike Madrid Co., in West Lafayette, Ind., almost found himself in just such a position. Needing cash in a hurry to complete the takeover of a bankrupt competitor's accounts, Madrid—whose company services, rents, and sells road-construction signs and barricades—didn't have time for the red tape of a new loan. He was forced to borrow against an existing line of credit not technically intended for equipment purchases. Eventually, he had to renegotiate it all into an unmanageable hodgepodge of long-term vehicle and equipment loans.

Sufficiently frustrated, Madrid sat down with his banker and set up a "fixed-asset purchase plan"—a hybrid of a credit card and a long-term loan. The agreement gives him quick access to cash, and the payment structure is designed to accommodate his seasonal cash flow.

Madrid got a $100,000 line of credit earmarked for preapproved items such as trucks, trailers, and office and shop equipment. He makes a monthly minimum payment on the loan: $3,500. But he skips payments from December through March when business is practically nil. Forty minimum payments spread over five years will pay off the loan. Even though the loan provides the convenience of a credit card, the interest rate—one point above prime—is no different from what Madrid would pay on a long-term loan.

Here are Madrid's guidelines for negotiating similar terms:

- **Approach a bank you have a good track record with.** Because Madrid's bank had been approving his loan applications for six years before signing off on this one, it is confident of his ability to pay.
- **Ask for more manage-**

*(Continued on next page)*

**RESOURCE**

## *How Your Bank Evaluates You*

IF YOU WANT TO STAY IN YOUR BANKER'S GOOD graces, it pays to do your homework. One book to add to the reading list: *Annual Statement Studies,* a compendium of financial ratios for companies in 368 industries, published by Robert Morris Associates (RMA).

RMA, a national association of bank loan and credit officers, has published the book of ratios for years. And for years bankers have studied it to gauge just how current and potential borrowers stack up against others in the same business.

"When you're aggressive and growing rapidly, you don't want to get blindsided by one of these ratios," says Larry Daniel, CEO of The Daniel Company of Springfield, a $3.5-million trucking company in Missouri. "If you're doing something different from the rest of the industry, you'd better be ready to explain it." Daniel says the RMA guide has helped him in his dealings with his accountant and banker.

The book provides up-to-date comparisons by industry, tapping 16 commonly used ratios, and balance-sheet and income-statement data. Five years of historical data are also included. The latest version breaks out the numbers by sales volume as well as assets and includes several new service-industry categories.

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Even if your CPA doesn't have a copy on hand, the book is available in many libraries. Or you can buy it for $95 from RMA, 1 Liberty Pl., Suite 2300, 1650 Market St., Philadelphia, PA 19103; phone (215) 851-9100, fax (215) 851-9206. *—Susan Greco*

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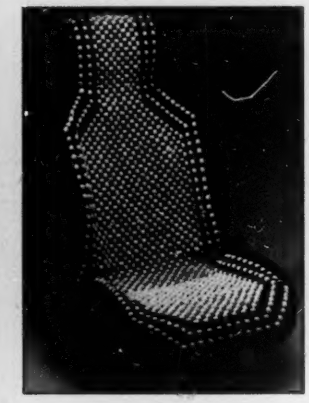
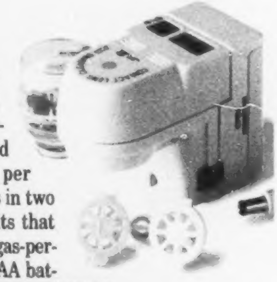


**Cab Drivers' Secret.** A New York City cab driver tipped us off about the Wooden Bead Seat's "*mystical*" massaging action. It enables you to sit for long periods of time without discomfort or fatigue. Like modern-day acupressure, it gently *massages* your back and legs, stimulating tired muscles and improving circulation. Allows air to circulate so you stay cool in summer and warm in winter. Recommended by chiropractors, it supports the lower back and helps improve posture. The smooth lacquered wood beads are hand strung with flexible, heavy-duty nylon cord. **$29.95** #2690—two for **$49.95** #2700.



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## BANKING & CAPITAL

(*DEBT, from page 91*)

**able terms, not more money.** From the bank's perspective, the credit line doesn't give Madrid any more money than a number of smaller loans would. But from Madrid's perspective it dramatically improves cash flow.

- **Don't change your normal ground rules with the bank.** Madrid didn't try to get his bank to sign off on any type of equipment he wouldn't normally take out a loan for. He also offered only previously approved forms of collateral.
- **Set up good lines of communication with the bank.** Madrid phones his banker and tells him what he wants to buy and for how much, then mails a description of the purchase to the bank office. The bank receives financials from Madrid twice a year and makes appraisals of equipment once a year. To date there haven't been any disagreements. ***—Teri Lammers***

## RAISING CAPITAL

# *Borrowing Without a Bank*

CHARLES BODENSTAB LIKES TO keep his revolving credit line at his bank as open as possible in case he needs it. So to meet his short-term cash requirements, Bodenstab, president of Battery & Tire Warehouse, in St. Paul, Minn., taps into a source closer to home: his children, friends, and employees. Lately, he has borrowed about $100,000 in this manner. The "commercial paper" is offered in $10,000 bites, and each month investors receive interest checks for 1% of their $10,000 investment.

Bodenstab says he's happy to pay his investors, who include three of his four children, an annual amount of $1,200. "That's about what my incremental borrowing cost is. And it keeps me from having to pay late fees to my vendors," he says. He gives investors letters acknowledging their investment. And if they need the money? "All they have to do is let me know. We pay them instantly." ***—B. G. P.***

# MANAGING PEOPLE

LEGAL BRIEFS

## Avoiding Employee Lawsuits

A MASS LAYOFF MAY HELP CUT COSTS IN AN economic downturn, but these days it's more likely than ever to result in an employee lawsuit. Suits are on the rise because it's cheap to file a charge against an employer, and several states have loosened up laws making it easier to sue and recover damages on discrimination charges. "In a recession employers need to be real conscientious," notes Robin Harvey, a partner at the Cincinnati office of Benesch, Friedlander, Coplan & Aronoff.

A misstep can be costly. More and more so-called wrongful termination cases are being tried by juries, which tend to favor employees. Out of 120 such suits surveyed by The Rand Corp. in 1988, 66% were won by employees. The average award: $650,000 per suit. Employee lawsuits are expensive for California employers as well. Peter N. Hillman, a partner at Chadbourne & Parke, in New York City, cites a recent California study that found that plaintiffs were victorious 75% to 80% of the time, winning an average of more than $300,000. "It's become analogous in people's minds to playing the lottery," says Hillman.

Business owners can do much to avert such lawsuits by adopting fair employee policies and by documenting their own compliance. In such a litigious environment, even small companies should set up systems that prove fair treatment. Here are some tips and strategies:

- **Set up an information hub.** Someone should be designated to take charge of personnel issues and keep up with changes in state and

*(Continued on page 95)*

MOTIVATION

## *A Rotating Layoff to Save Jobs*

LOOKING FOR A DECENT way to lay off workers? Consider the "rotating layoff," which converts such firings from an all-or-nothing proposition into a pain-sharing experience. Instead of handing out pink slips to a few employees while the rest stay on full-time, all workers participate in a rotating layoff.

Here's how John Leehman, co-owner of Bread Loaf Construction Co., in Middlebury, Vt., designed his accommodative plan: instead of eliminating 10 people from a team of 30, Leehman asks the entire team to work 33% fewer hours by reporting for duty only two weeks out of every three. Leehman "rotates" the layoff week among workers so that Bread Loaf always has 20 team members on hand. "No one loses a job or benefits, and we have a temporary cut in overhead," explains Leehman.

This novel approach has allowed Bread Loaf to attract and keep desirable employees in the notoriously cyclical construction industry, but it could be a solution to unpredictable work flow in other industries, too. Leehman finds that the slight drop in efficiency that results from job switching "is offset by an increase in energy." —*E. E. S.*

### IN THIS SECTION

**AVOIDING EMPLOYEE LAWSUITS**
*The growth in employee lawsuits has put many CEOs against the wall. Here's how to protect yourself*

**A ROTATING LAYOFF TO SAVE JOBS**
*How to save employee jobs and build loyalty*

**RESOURCE: A DATABASE OF JOB HUNTERS**

**BUILDING AN AT-HOME STAFF**
*How to build trust among an at-home work force*

**Edited by**
**Ellyn E. Spragins**

## *Managing with Foresight*

**On May 5, 1931, Alcoa founder Andrew Mellon declared there should be no pay cuts in U.S. industry. Five months later he reduced the wages of his employees by 10%.**

ILLUSTRATION: STEVE JOHNSON; PHOTOGRAPH: CULVER, PICTURES, INC.

*(LEGAL BRIEFS, from page 93)*

federal laws that could affect the company—even if those duties are not his or her primary job responsibility. Hillman suggests subscribing to the Bureau of National Affairs weekly *Bulletin to Management* and biweekly newsletter "Fair Employment Practices" (together, $200 a year; write 9435 Key West Ave., Rockville, MD 20850, or call 800-372-1033).

- **Establish guidelines.** All of your company's practices, for hiring and promoting as well as firing, should be codified. You don't need a fancy employee handbook, but it's best to write everything down and make sure everyone gets the message. (See "The Best Little Handbook in Texas," February 1989.) Explain the criteria used to evaluate employees, how frequently employees will be reviewed, and how your company will "discipline" poor job performance. Most important: be frank in performance evaluations.

Also, watch your language when writing an employee handbook or making a job offer by letter. The courts in some states have held that certain statements are contractual in nature. Many companies now add boldface disclaimers.

- **Document business conditions.** If you see a downturn—and potential layoffs—ahead, you'll have your hands full just keeping your business going. But it will pay to pull together a file that shows relevant events:

***The decline.*** Include objective material such as your financial statements, bank statements, and letters from major customers who are reducing or stopping their orders. In your own brief summary, describe conditions affecting your company and which parts of your company have more employees than are really needed.

***The intermediate plan.*** Before making layoffs, write a plan of action that addresses the slowdown. This might include reducing hours, freezing salaries, and eliminating new hires.

***Layoff blueprint.*** Decide how you'll implement layoffs and which jobs will be eliminated in which order. You're safest using the most objective criteria: job skills, performance, attendance records, and length of service. Older workers typically cost companies more, so in a cost-driven layoff companies are more vulnerable to age-discrimination suits. Make sure managers will apply your criteria consistently.

***The outcome record.*** Record steps taken in a brief diary entry. Collect records that show your goals were reached.

- **Ease the pain.** It sounds trite, but try to help laid-off employees. You might offer outplacement counseling, give severance pay, or let former employees use your offices to conduct job searches.

All in all, lawsuit protection amounts to being fair—which is what you want to do anyway. But you must be able to demonstrate your equitability. "That's the acid test that courts apply," says Albert Zakarian, a partner at Day, Berry & Howard, in Hartford. "If your job elimination smacks of shabby treatment, then it's headed for trouble, because it's easier for jurors to latch on to discrimination."

*—E. E. S.*

RESOURCE

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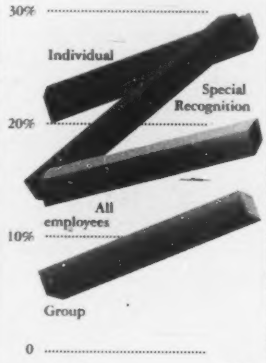
***—E. E. S.***

### *Who's Getting "Results-Sharing" Awards?*

*Increasingly, the rank and file are allowed to share in a company's annual performance.*



| | 1989 | 1990 |
|---|---|---|
| Individual | 22% | 28% |
| Special Recognition | 14% | 27% |
| All employees | 14% | 18% |
| Group | 7% | 12% |

*Source: Salary Increases surveys, Hewitt Associates, Lincolnshire, Ill., 1989 & 1990.*

CHART: ROSS CULBERT LAVERLY & RUSMAN INC., NEW YORK

WORK FORCE

## *Building an At-Home Staff*

THE ADVANTAGE OF hiring people who work out of their homes is obvious: it's much cheaper. Your company needs less office space and less equipment. And workers who maintain independent-contractor status save you the whopping cost of health benefits. But how do you know home workers aren't watching Oprah Winfrey when they're supposed to be producing? And how do you get remote employees to care about your company and its mission?

Jane Sandlar, president of Support Our Systems (SOS), says the benefits of working at home are so appreciated by her 60 home workers that she can be extremely demanding about the quality of their work.

SOS, based in Red Bank, N.J., produces user guides for computer systems at large companies, so it relies on writers—a notoriously independent bunch. To run her business largely on the steam of home workers, she has devised a system that is rigid in some respects and flexible in others. Here are the key points:

- **Skill testing.** Because em-

*(Continued on next page)*

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AUDIOS

*(WORK FORCE, from page 95)*

ployees won't be working at the office, you need to be sure they really can execute the work. Sandlar tests a prospective home worker's writing ability and study habits.

- **Project orientation.** Every document that SOS publishes is produced by a team of writers headed by a project manager. That gives the writers a small group to identify with, as well as a natural reason to communicate frequently.
- **Multiple checkpoints.** Though SOS's consultants can maintain whatever working hours they like, they are required to define them, to check in with SOS several times a day, and to have multiple means of electronic communication.
- **Highly detailed assignments.** SOS gives clients a clear picture of what their finished document will look like and how much it will cost. That "design statement" also spells out consultants' assignments in detail. Frequent deadlines ensure that home workers are drawn into the production loop and can't ignore their responsibility to the company.
- **Personalization.** Sandlar meets with each consultant at least four times a year. She also encloses a note with the paychecks, and schedules three companywide meetings a year.
- **Frequent feedback.** While consultants work on chapters of a document, their performance is continually being judged by a project manager. Consultants are reviewed afterward. Sandlar gives every home worker a critique of every job.

There *are* disadvantages to a homebound work force. Sandlar hasn't quite figured out how to overcome funky computers and outrageously high phone and Federal Express bills. But perhaps what's most frustrating about managing off-site workers is that when everybody else works at home, it's even more important that you don't—so you can be available to all the far-flung players. "I started this business so I wouldn't have to work in an office," says Sandlar. "Now I'm at the office more than anyone else." *—E. E. S.*

# FINANCIAL STRATEGIES

*Get all the information you need, says CPA Mike Knight*

**ADVISERS**

## *The Accountant Safety Test*

BUSINESS OWNERS SHOULD BE ABLE TO RELY ON long-lasting relationships with their accountants to provide them with networking contacts, consulting advice, and increased access to capital markets. Unfortunately, those relationships may now be harder to forge, since the accounting industry in the United States is in turmoil.

**For more suggested questions, read the free brochure "How to Choose and Use a CPA." Contact the AICPA Communications Division, 1211 Ave. of the Americas, New York, NY 10036-8775; (212) 575-6200.**

Rumors persist about the financial instability of once-invincible "Big Six" firms. When accountants get a reputation for inept audits or less-than-pristine standards, state and federal tax authorities may focus their attention on all of the firm's clients.

For some suggestions on how growing companies can protect their own interests on the accounting front, *Inc.* turned to Michael J. Knight, a Fairfield, Conn., CPA who serves on the board of directors of the Smaller Business Association of New England. As a member of the American Institute of Certified Public Accountants (AICPA) Small Business Taxation Committee, he has appeared before the Senate and the Internal Revenue Service to testify on small-business issues.

**INC.:** *How can you tell if your accounting firm is financially sound?*

*(Continued on next page)*

**TAX STRATEGIES**

## *Charitable Donations with a Big Payoff*

EXCESSIVE BUILDUP OF inventory, which ties up cash, can be a real risk in an economic downturn. Here's a solution: donate your excess inventory to qualified charities, under Section 170(e)(3) of the Internal Revenue Code.

That's what Marshall Rauch, CEO of Rauch Industries Inc., a $38-million manufacturer of Christmas decorations in Gastonia, N.C., has been doing for years. "At the end of each season, when we've got leftover merchandise that hasn't sold and isn't in demand from closeout buyers, we donate it to charities that can use it," explains Rauch. As a result, Rauch has been able to claim thousands of dollars in tax deductions and cut his company's warehousing costs.

The IRS offers philanthropically minded companies a sweet financial incentive: tax deductions adding up to more than the original production cost of the items donated. "You get to deduct the cost of the product donated, plus half the difference between your original cost and the product's fair-market selling price," says Rauch. Deduction limits are pegged at a maximum of twice the product's cost.

To qualify for the deduction, your company's gift must go to a charitable, religious, or educational organization that has been granted 501(c)(3) tax-exempt status by the IRS. A middleman organization, such as the National Association for the Exchange of Industrial Resources (NAEIR), can help you locate interested recipients.

"I submit samples and marketing catalogs, and NAEIR determines whether its charities can use our items," says Rauch. "If they can, the association sends us shipping documents and redistributes our goods to interested charities."

For further information call (309) 343-0704 or write NAEIR, Dept. YB-12, 560 McClure St., Galesburg, IL 61401. *—J. A. F.*

### IN THIS SECTION

**THE ACCOUNTANT SAFETY TEST**
*How to make sure your accountant is a safe bet*

**CHARITABLE DONATIONS WITH A BIG PAYOFF**
*How to give it away without losing money*

**RESOURCE: A GUIDE TO FINANCIAL INSTRUMENTS**

**THE ABCS OF PHANTOM STOCK**
*A key way to keep good people without giving up the store*

**Edited by**
**Jill Andresky Fraser**

PHOTOGRAPH: MELANIE EVE BROCAS

*(ADVISERS, from page 99)*

**KNIGHT:** You can ask if there are any outstanding legal claims against it, especially on the malpractice front. The firm may not be willing to tell you, but your state society of CPAs can direct you to the appropriate state agency, which can tell you whether any formal complaints have been lodged against the firm, by either clients or creditors.

Meanwhile, you may also be able to negotiate certain kinds of information from the accounting firm if it wants to win or hold on to your business. At the very least the firm should be able to tell you if it has errors-and-omissions insurance. It should also be willing to give you the names of some of its clients in your industry and encourage you to talk to other business owners about the quality of their service.

**INC.:** *Quality is such an intangible. How can you be certain your accounting firm's standards are as high as they should be?*

**KNIGHT:** Ask how the firm's most recent peer review went. CPA firms are reviewed every three years by an outside accounting firm that is either randomly assigned by the state society of CPAs or selected by the firm itself. The outside reviewer checks out the accounting firm's audit controls and procedures—and it's not just a formality. Accounting firms really do fail if their standards aren't high enough. You should ask when the last review took place, who performed it, and whether your firm passed or failed. If the firm won't answer those questions, look elsewhere.

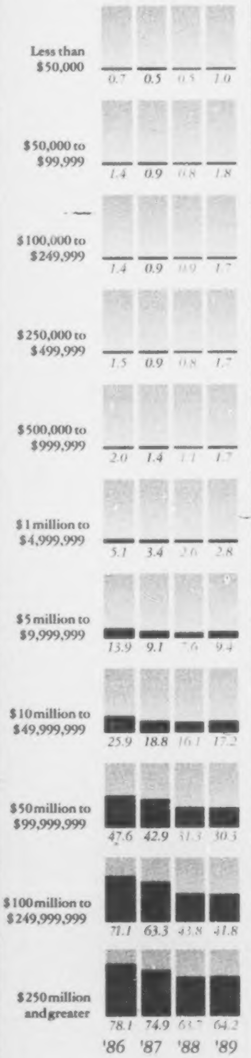
**INC.:** *Can you give us a wish list of other issues to ask about? Given the current environment, it seems as though business owners have a right to be as cautious as possible.*

**KNIGHT:** Ask outright if the firm has ever been sued and what the outcome of the case was. If the firm won't answer, that may be cause for concern. Also find out whether the firm handles audits—some won't—and what its track record is. Ask how fully computerized its operations are. Then be sure to visit to see for yourself that what you've been told is true.

—*J. A. F.*

## The Taxman Cometh

*Percentage of Corporations Audited, by Size of Assets**



*Large companies still run the greatest risk of being audited. But their audit risk has declined in recent years, while the risk for smaller firms has risen dramatically.*

* *Assets as shown on balance sheets. Source: Internal Revenue Service.*

RESOURCE

## A Guide to Financial Instruments

**The 1980s are over, but the mind-boggling array of financial instruments concocted and popularized during the decade lives on. While most businesspeople have never even heard of such state-of-the-art products as bunny bonds or repos, these instruments do offer some attractive advantages for corporate investors as well as issuers.**

**Coopers & Lybrand has put together the amazingly comprehensible *Guide to Financial Instruments,* which analyzes in 145 pages the purpose, risk considerations, tax advantages, and other features of nearly 50 financial vehicles. Although some are too obscure to be useful to small and growing companies, others—such as interest-rate swaps, bridge loans, and bankers' acceptances—offer real potential to smaller companies. The free guide can be ordered by contacting Coopers & Lybrand, Publications Department, 7th floor, 1251 Ave. of the Americas, New York, NY 10020; (212) 536-2000.**

**—*J. A. F.***

INCENTIVES

## The ABCs of Phantom Stock

WILLIAM REIDY, THE chairman and CEO of $8.2-million Fine Organics Corp., a chemical manufacturer in Lodi, N.J., had a problem: "We were buying two small companies and wanted to figure out how to retain key personnel. But giving them stock shares in Fine Organics—even without voting rights—wasn't an option for us." That's because Fine Organics had been incorporated as an S corporation and, according to IRS regulations, could not create two tiers of stock. But the company's six origi-

*(Continued on page 102)*

CHART: ROSS CULBERT LAVERLY & RUSMAN INC., NEW YORK; PHOTOGRAPH: CHRIS HARTLOVE

*(INCENTIVES, from page 100)*

nal shareholders didn't want to dilute their ownership control by broadening the base of regular shareholders.

"We were trolling about for some kind of compromise solution and heard about phantom stock," recalls Reidy. The basic scheme was simple: "Instead of real stock, we'd give these key individuals a document that, at the time it is issued, has a value of zero. As the book value of the combined equity—that is, Fine Organics and the acquired company—increases, the amount of that increased value is added to the original zero value of the phantom-stock document." At an agreed-upon point, the individual cashes in the phantom stock for the difference between its current and original value.

Reidy has used this easily administered benefit twice, and both times it has been successful. Here are his basic guidelines:

- **Keep the financial terms simple.** "These plans can turn into accounting nightmares if you have to keep calculating the present value of this and the inflation index for that," Reidy says. "We just pegged everything to the book value of our stock, which is easy to calculate and easy for everyone involved to understand." One of Reidy's staffers who received phantom stock in 1986 has watched its value rise $1,350, as the company's book value has risen from $150 per share to $1,500 per share.
- **Present the plan as a win-win benefit.** Instead of using the massive plan documents offered by most accounting firms, have your own staff prepare a brochure that spells out key advantages, from both the employee's and the company's vantage points. One plus, for example: unlike regular stock shares, there's no tax bill due when the employee receives phantom shares. That's because the IRS considers phantom stock a form of deferred compensation, taxable only when those shares are cashed in.
- **Offer plenty of cash-in options.** One of the best things about phantom stock is that it gives employers the flexibility to design a stock benefit that fits individual employees' needs. "They can receive profits outright in the form of a cash bonus they'll immediately owe taxes on, or receive the cash over a deferred-payment schedule that makes sense for them," Reidy explains.
- **Tailor vesting schedules to individual circumstances.** Phantom-stock plans help companies retain key individuals through the use of vesting schedules, which give employees financial ownership of their shares gradually over a specified time period. Rather than settling upon one specified vesting schedule, as most large plans do, Reidy negotiates each person's vesting individually. "That way you can take into account factors like a person's age and how much value you expect him or her to bring to the company over the short and long term." At Fine Organics, vesting periods of 5 and 10 years have been used. *—J. A. F.*

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# IN THE OFFICE

**SAVING CASH**

## *The Used-Computer Market*

THE NATION'S FIRST USED-PC BROKER WAS ESTABlished in 1982, hard on the heels of the introduction of the nation's first PC. And now that nine-year-old Boston Computer Exchange has proved that not only the concept is durable, but so is the merchandise itself (most of it retired from corporate MIS departments), similar matchmakers have been popping up across the land. The deals they arrange can be attractive from both sides.

A computer exchange functions roughly the way the stock market does, with outside bids and offers on specified models listed with the exchange's brokers, who attempt to bring together the buyer and the seller somewhere in between. (In some cases, the seller is the exchange itself, dealing from inventory acquired through bankruptcy liquidations and such.) Once the parties agree to a fair price, the buyer gives the money to the exchange, which deposits it in an escrow account. The seller then ships the goods. After the buyer has had a chance to verify the condition as represented—a period usually limited to a couple of business days—the exchange pays the seller and pockets a commission.

**If you are in the market to buy or sell a used computer system, check out the list of major regional computer exchanges on the next page.**

An anxious seller might be able to coax immediate cash from an exchange, but that seller should not expect much more than half of the price that might have been fetched through patiently waiting out a brokerage listing.

*—R. A. M.*

**OFFICE EQUIPMENT**

## *How to Test a Used Computer*

PRE-OWNED COMPUTers can be tested in a matter of hours, following procedures Alexander Randall V, cofounder of Boston Computer Exchange, recommends in *Alex Randall's Used Computer Handbook* (Microsoft Press, 1990, $14.95). Some examples:

- **Open the box.** A layer of dust would be discouraging.
- **Power-up from a floppy disk in the A drive.** If the system fails, its floppy-disk controller card, floppy-disk drive, or motherboard may be defective.
- **Try booting up from the hard disk.** A failure suggests the hard disk has been improperly formatted or is missing essential start-up files, the hard-disk controller card is defective, the hard disk is defective, or the motherboard is defective.
- **Check the memory.** Make sure the amount of RAM displayed on the monitor after the initial memory check jibes with what it's supposed to have.
- **Format a floppy disk.** If the format fails, try a fresh disk. Successive failures suggest the drive is defective.
- **Try copying files from one drive to another.** Repeated failures indicate a defective drive. If you're successful, run a disk comparison to make sure the files were copied accurately.
- **Examine the monitor.** Turn up the brightness and contrast controls to check for phosphor "burns." Determine if characters are out of proportion. Make sure the image doesn't waver.
- **Check the keyboard.** Do the characters on the screen match each character on the keyboard? Test the cable by gently tugging on it.
- **Don't ignore the fan.** If, when you turn the computer on or off, the fan sounds like a helicopter, it's probably ailing, says Randall. It can be replaced, but it may have damaged the heat-sensitive electronics inside.

*—R. A. M.*

**IN THIS SECTION**

THE USED-COMPUTER MARKET
*How to find, test, and buy a good used computer*

RETHINKING RECYCLING
*Does it go without saying that you should recycle?*

WHAT TO DO ABOUT CARPAL TUNNEL SYNDROME
*Just how serious is carpal tunnel syndrome, and can you do anything about it?*

RESOURCES: FOREST RESOURCES

**Edited by Robert A. Mamis**

ILLUSTRATION: STEPHEN ELSTON

## COMPUTER EXCHANGES

EARLIER THIS YEAR, INC. solicited offers for the hypothetical bulk sale of 10 typical systems—all three-year-old IBM 286 ATs with 30-megabyte hard drives and monochrome monitors. Here are the cash offers of four exchanges, and their suggested asking prices if we brokered the systems through their listings:

BOSTON COMPUTER EXCHANGE
BOSTON; (800) 262-6399
Listing fee: $25
Broker commission: 15%
90-day warranty cost: additional 10%
Service contract: 15% of current value
Cash to *Inc.* for 10-PC lot: $4,500 to $5,000
Suggested asking price if brokered: $9,250

SOUTHERN COMPUTER EXCHANGE
ATLANTA; (800) 786-0717
Listing fee: $25
Broker commission: 10%
No 90-day warranty
Service contract: $225 average
Cash to *Inc.* for 10-PC lot: $3,250
Suggested asking price if brokered: $5,000 to $7,000

COMPUTER EXCHANGE NORTHWEST
KIRKLAND, WASH.
(206) 820-1181
Listing fee: free
Broker commission: 15%
No 90-day warranty
Service contract: $50 to $150
Cash to *Inc.* for 10-PC lot: $4,000 to $4,500
Suggested asking price if brokered: $6,800 to $7,200

WESTERN COMPUTER EXCHANGE
ALBUQUERQUE
(505) 265-1330
Listing fee: $25
Broker commission: 15%
No 90-day warranty
Service contract: $150 to $400
Cash to *Inc.* for 10-PC lot: $3,000
Suggested asking price if brokered: $5,000

***—Researched by Susan Greco***

ENVIRONMENT

# *Rethinking Recycling*

DOESN'T IT GO WITHOUT saying that businesses should recycle paper? No, answers Ken Braun, cofounder and chairman of Pepper's, a retail chain of natural-ingredient personal-care products, and an avid conservationist who has much to say—and do—about recycling. Braun's concerns once dictated buying *only* recycled paper for his company's office supplies. He's changed his mind. Not because recycled paper is more expensive than virgin (though it is) or less well finished (that, too), but because in talking to suppliers he determined that the chemicals employed in recovering old paper did more harm to the environment than chopping down new trees did.

Braun further unearthed that for some time now the paper industry, along with the government, has been planting more trees than it harvests. Far from being a withering resource, pulpwood crops are themselves recyclable, thanks to the

*(Continued on page 108)*

HEALTH

# *What to Do About Carpal Tunnel Syndrome*

JUDGING FROM MEDIA REACTION to last fall's Bureau of Labor Statistics report on industrial illness, you'd think everyone who sits down at a computer suffers from weakness, tingling, numbness in the fingers, and/or pain in the wrist and forearm. Those are the symptoms of carpal tunnel syndrome, which has long taken its toll on arm-swingers like jackhammer operators and now, statistical evidence suggests, is running wild in the office as well.

But medical evidence suggests it's not. What triggered the press's alarm was the bureau's finding that conditions caused by repeated motion, pressure, or vibration have "over the past several years . . . significantly increased." During that time, not so incidentally, the number of desktop computers has multiplied like crazy. Even so, the trend could be as much a quirk of modern-day industry as of bad ergonomics, says Boston hand surgeon Andrew Terrono. "The number of specialized jobs is increasing *everywhere*," he concludes, "so more people do the same thing all day." His prescription: stop every so often and walk around.

That's a regimen also prescribed within the city limits of San Francisco. Authorities there passed a law mandating humane treatment of workers who use video display terminals. The controversial statute applies to businesses with 15 or more employees. It requires that any employee who toils before a screen for more than four hours a day be provided with an adjustable swivel chair, a table with lots of leg space, a glare filter, and discrete lighting. Employees must also get a 15-minute break every two hours. Employers unwilling to comply are subject to fines of up to $500 a day, or the cost of a mover's bill to relocate.

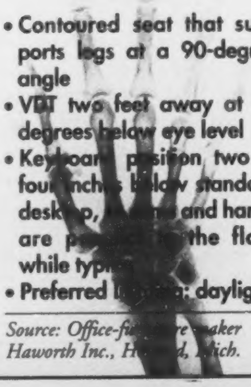
Those companies can run, but they can't hide—especially if they take aging computer apparatuses with them. Not even a decade ago, microcomputer pioneers were dubbing their newly aching extremities "MacHands" and blaming the affliction on computer mice. After nearly nine years of selling and producing essentially one-size-fits-all units, Logitech Inc., of Fremont, Calif., is revamping its line of mice in hopes of easing the pain. There will be mice not only for hands of various sizes but for different fingers, too: some models are designed so the thumb does the clicking, thus putting less strain on the wrist.

Luckily, carpal tunnel syndrome in white-collar circles is "a curable disease—about 85 times out of 100," ventures Robert J. Banco, an orthopedic surgeon in the high-tech outskirts of greater Boston. Most sufferers recover in six to eight weeks without surgery, he says, and, aided by splints and medication, can remain at work throughout. ***—R. A. M.***

**AN ERGONOMICALLY SOUND OFFICE**

- **Contoured seat that supports legs at a 90-degree angle**
- **VDT two feet away at 20 degrees below eye level**
- **Keyboard position two to four inches below standard desktop, [illegible] and hands are [illegible] the floor while typing**
- **Preferred lighting: daylight**

*Source: Office-furniture maker Haworth Inc., Holland, Mich.*



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*(ENVIRONMENT, from page 106)*

newly developed, now ready-to-be-harvested "supertree," a genetically improved pine that reaches maturity in 18 years rather than 25 years and yields 30% to 40% more fiber than run-of-the-mill varieties do. Indeed, a spokesperson for the American Paper Institute (API), a trade organization in New York City that represents most of the country's mills, admits that when paper companies "do recycling, it's not to save trees—which is the common belief. It's to extend resources. A paper company needs raw materials to stay in business." In other words, a portion of the public collecting effort goes toward boosting corporate assets.

As for paper recycling stressing the environment, the API spokesperson suggests that Braun stop worrying. Because whether mills are using wastepaper fiber or wood fiber to manufacture paper, they must meet strict Environmental Protection Agency and local standards. Besides, in transforming old newsprint into new boxes, recycling saves precious landfill space.

Nonetheless, Braun insists on ordering office stationery and packaging materials made straight from the tree. Yet he persists in packaging Pepper's paper for pickup—and also breaks down the corrugated cases in which vendors ship goods, and uses them many times over for his own shipping. Similarly, he rounds up for recycling empty plastic containers from Pepper's outlets. Not every business can be expected to practice this kind of self-recycling, however. "For someone bigger, it could become an operational nightmare," Braun grants. "For us, it's very satisfying." —*R. A. M.*

RESOURCES

## *Forest Resources*

Papermaking
AND OUR
Small Planet

FOR MORE INFORMATION ON PAPER COMPANIES and the environment, consider—

- "Papermaking and Our Small Planet," a 6-page pamphlet that discusses global warming, the pulping process, and recycling. S.D. Warren Co., Idea Exchange, 225 Franklin St., Boston, MA 02110; (617) 423-7300.
- "Scott and the Environment," a 36-page brochure that explains Scott Paper Co.'s use of raw materials; manufacturing; and product packaging, use, and disposal. Scott Paper Co., Scott Plaza, Philadelphia, PA 19113; (215) 522-5000.
- Office Recycling Kit. Seven-part packet includes statements, newsletter, and articles such as "Get Real!" a 10-page primer on recycling and a guide to "environmentally sound" paper. Conservatree Paper Company, 10 Lombard St., Suite 250, San Francisco, CA 94111; (800) 522-9200; fax (415) 391-7890. Price: $12 per kit.
- "With the Environment in Mind: Weyerhaeuser Pulp & Paper Products," an 18-page brochure that gives a rundown of recycling "myths." Also, "Solid Waste/Recycling and the Pulp and Paper Industry," a 6-page newsletter on uses of and limits to recycling. Weyerhaeuser Paper Co., CH 3E32, Attention: Environmental Information, Tacoma, WA 98477; (206) 924-2153.
- "Solid Waste Solutions: Westvaco's Initiatives for the Future," a three-page brief on the company's use of innovative packaging, recycling, incineration, and landfills. Westvaco Corp., 299 Park Ave., New York, NY 10171; (212) 688-5000; fax (212) 319-6510.

—*S. G.*

# THE INC. NETWORK

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READER-TO-READER ADVICE

**RIDING OUT THE STORM**

*"I keep looking in the mirror to find the M on my forehead for moron," Sal Orlando wrote, in February. His mistake: using an infomercial just before the genre was targeted by a news-show exposé. Now customers are staying away, and other advertising media are telling Orlando to stay away.*

Orlando overestimates the power of the press. The TV shows that muckraked infomercials reached at most 20% of U.S. households, and most probably didn't pay close attention. As for media refusing his ads, with the economy lagging, they'll soon lose their pride in the search for ad dollars.

Jay L. Tenebaum
JLT Marketing/Advertising
Atlanta

Orlando should forget about it and move on. Why not repackage the infomercial as a videotape for trade shows, or have a PR consultant use it to pitch his story?

Lisa Chipolone Romeo
Cedar Grove, N.J.

**SOURCE SEARCH**

*Cindy Herrick's company buys overruns and closeouts of glassware, and sells to general merchandisers in the Pacific Rim (Glass Act, February). As her company grows, she must expand her sources. She asked Network readers where to look.*

Herrick should refer to the *Thomas Register of American Manufacturers.* But one of the best sources of information is the local newspaper. She should read the employment section, looking for columns headed "Marketing" or "Manufacturing Sales." Of the companies there, 90% have no experience with international sales. She could introduce them to the possibilities.

Jaime Fahey
President
J.T.A. America Inc.
Matawan, N.J.

*Export* magazine (708-296-0770) publishes a buyers' guide for exporting consumer goods. Herrick should also look through *Money Making Opportunities* (818-980-9166), *Opportunity* (212-925-3180), and *Spare Time* (414-543-8110). These magazines publish lists of companies trying to close out products.

George Y. Yang
Newark, Del.

**FOCUS, FOCUS, FOCUS**

*John Starrs bought a stagnating dental-pharmaceuticals company. His challenges: reestablishing its distribution network and licensing formulas to manufacturers (Tooth Decay, February).*

For a quick market entry, Starrs should implement a phased sales program using independent manufacturers' representatives, scaling product volume to distribution needs. To find contract manufacturers, he should look in medical trade publications. He should also consider private-labeling his products to increase sales volume.

Pamela G. Goforth
President
Medical Technologies
Development
Santa Ynez, Calif.

***Please send your words of advice to Michael P. Cronin, The* Inc. *Network, 38 Commercial Wharf, Boston, MA 02110, or call our reader response line,* (800) 444-1756. *Or, fax your letters to* (617) 248-8090. *We'll publish the best responses and queries.***

## NEW QUERIES

*A Network reader, approaching retirement with no one to take over, must sell a family business. But he's looking for more than a buyer—he wants someone who'll carry on a tradition. Other letters concern bonding independent contractors and meeting like-minded entrepreneurs.*

**WE ARE FAMILY**

For 80 years my family has operated a specialty store. My wife and I are approaching retirement, and there is no one coming along to take over the business. We'd like to find a buyer who will preserve the quality and character of our store. We thought of listing the store in the business-opportunities section of newspapers and magazines, but most ads there are for franchises and get-rich-quick schemes. And we're not interested in employing a broker. How can we find the right buyer, someone who will really care about our business?

Louis Lorenz
Company name and
address withheld

**SAFE PETS**

Our business is minding houses and pets. Until now my husband and I have handled almost all the work, but we'll need extra hands soon. The problem is that our clients will want our employees to be bonded. If we hire them as employees, we can bond them inexpensively. But that means maintaining all the paperwork for workers' compensation, social security, disability insurance, and so on. We'd rather hire people as independent contractors. But then they will have to be bonded individually. That would be too expensive. Can Network readers offer any advice?

Carolyn Moskowitz
Owner
Personal Service Associates
Rochester, N.Y.

**WHERE EVERYBODY KNOWS YOUR NAME**

I want to join a few entrepreneurial clubs and organizations to meet people in my industry—not just venture capitalists, but people who share my interests. I checked the yellow pages in San Francisco, but all I found were social clubs. Does anyone know of a good Bay Area or national organization of entrepreneurs?

Alex Popov
San Francisco

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## RESOURCES

### DISCOVERING JAPAN

I'm working for a Japanese company that wants to find small U.S. companies interested in exporting food products to Japan. I've worked with foreign exporters, but finding American exporters is more difficult. How should I go about my search?

Mike D. Carroll
Atlanta

*If you want to find small companies that wish to export, there are thousands trying to get found. We asked experts for advice for both you and small-company owners trying to export.*

*"Companies interested in exporting should first determine what kind of demand there is for their products in the country that interests them. One way to do this is by using services like Buyer Alert," says Audrey Talley of the Office of Food Safety and Technical Services of the Foreign Agricultural Service (FAS). "This program allows potential exporters to place a free trade announcement with the FAS Agricultural Export Program, which then disseminates the message to U.S. embassies in foreign countries. The embassies pass it along to agricultural libraries in their host countries."*

*The FAS's Ag Export Connections service sponsors both Buyer Alert and Trade Leads. Trade Leads collects foreign importers' inquiries from U.S. embassies around the world and places them in The Journal of Commerce and on an electronic bulletin board for U.S. exporters to use.*

*Bill Delphos, an export-financing consultant (see "Unfair Trade," Hotline, April 1991), recommends the FAS's U.S. Supplier List, a database that lists more than 6,800 U.S. food companies interested in exporting. "The database contains comprehensive contact information," he says, "broken down by commodity and country." For more information about Buyer Alert, Trade Leads, or the U.S. Supplier List, contact James H. Johnson, FAS, USDA, Room 4939, South Building, Washington, DC 20250; (202) 447-7103.*

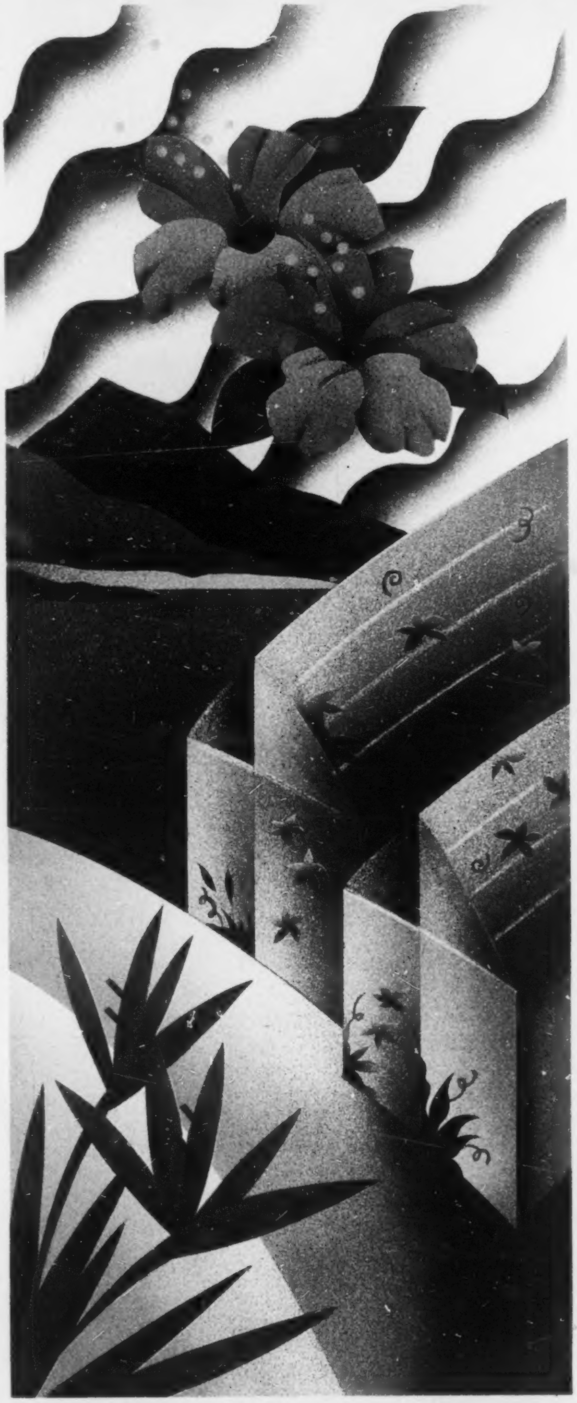
*The U.S. Department of Agriculture conducts some of its marketing and promotional activities for exporters through four regional associations: the Western United States Agricultural Trade Association (WUSATA; 206-574-2627); the Eastern United States Agricultural and Food Export Council (EUSAFEC; 215-299-3011); the Mid-America International Agri-Trade Council (MIATCO; 708-866-7300); and the Southern United States Trade Association (SUSTA; 504-568-5986). These work with their member states to coordinate regional activities, and with exporters to set up large pavilions representing the region at overseas trade shows.*

*One good example of how these regional associations can work is Blue Sky Natural Beverage Co. (see "Over There," April 1990). Blue Sky, which now exports 10% of its naturally flavored sodas to Japan, got its first order there after WUSATA took a few cases of its soda to Foodex, a trade show in Japan. "And we continue to get trade leads from WUSATA," says Richard Becker, Blue Sky's president.*

*The Japan External Trade Organization (JETRO) advises U.S. companies interested in exporting to Japan. JETRO publishes a daily bulletin in Japan that once a week carries inquiries from companies interested in exporting to Japan. It also maintains a database of Japanese importers and U.S. exporters. Contact the Public Affairs Office, JETRO, McGraw-Hill Building, 1221 Ave. of the Americas, 44th floor, New York, NY 10020; (212) 997-0400.*

*Finally, after you've exploited the services of governments foreign and domestic, Bill Delphos recommends contacting one of the many food-industry trade groups that actively support the international efforts of their member companies. Try the National Food Processors Association, 1401 New York Ave. NW, Suite 400, Washington, DC 20005; (202) 639-5900; and the International Dairy Foods Association, 888 16th Street NW, Washington, DC 20006; (202) 296-4250.*

# THE AMERICAN DREAM



## BUSINESS FOR SALE

## HAWAIIAN FLOWER FARM

**THE BUSINESS** A wholesale flower farm with an ocean view, on 4.3 acres on the slopes of Mount Haleakala, Maui. Includes 13 screened, carnation-filled greenhouses (86,000 square feet); a two-bedroom house; an orchard of plum, cherry blossom, apple, and pear trees; and room to grow. Now on the market because of a decline in the operator's health.

**FINANCIAL SUMMARY**

| | 1988 | 1989 | 1990 |
|---|---|---|---|
| Gross sales | $107,418 | $50,348 | $50,584 |
| Recast pretax profit (loss) | 23,000 | (10,000) | (12,000) |

**PRICE** $1.2 million

**OUTLOOK** Flowers are hot, even if this grower isn't. The domestic wholesale cut-flower market topped $815 million last year, and floral-item sales per capita have risen from $24.50 to $51.69 since 1982. Experts say a new owner should consider planting what grows best here (and yields more money per bloom): the exotic and tropical plants naturally suited to Hawaii's unusual climate.

**PRICE RATIONALE** Though not exactly distressed, this business has certainly been neglected—and the owner is in a hurry to sell. The result: a bargain (he claims), with an asking price that might be lower than liquidation value. Subtract the $450,000 that the buildings and equipment are estimated to be worth, and you're left with land costs of about $175,000 per acre—substantially lower than the $300,000 per acre sometimes fetched by agricultural properties in this choice Maui locale. You're buying assets, not goodwill.

**PROS** Projected revenues of $180,000, with a 44% net, after expansion. (There's more than enough unused property for greenhouse space to be doubled.) Brisk local demand for fresh flowers from Maui hotels and flower shops. A market waiting to be tapped: Japan, by far the world's leading consumer of flowers.

**CONS** Because this garden has not been properly tended for the past two years, it will require substantial recultivation (an estimated $100,000 investment) to become profitable again. Floriculture is a delicate business, requiring patience, hard work, and something not everyone is born with: a green thumb. *—Alessandra Bianchi*

**Inc. has no stake in the sale of the business featured.**

*The magazine cannot confirm the accuracy of financial or other information offered by the seller. Inquiries should be directed to Business Brokers Hawaii #1 Inc., Kihei, Maui, Hawaii.*

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MAY 1991 VOL. 13 NO. 5

ILLUSTRATION: COCO MASUDA

**48 HOURS WITH THE KING OF COLD CALLS**

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# Inc.®

THE MAGAZINE FOR GROWING COMPANIES

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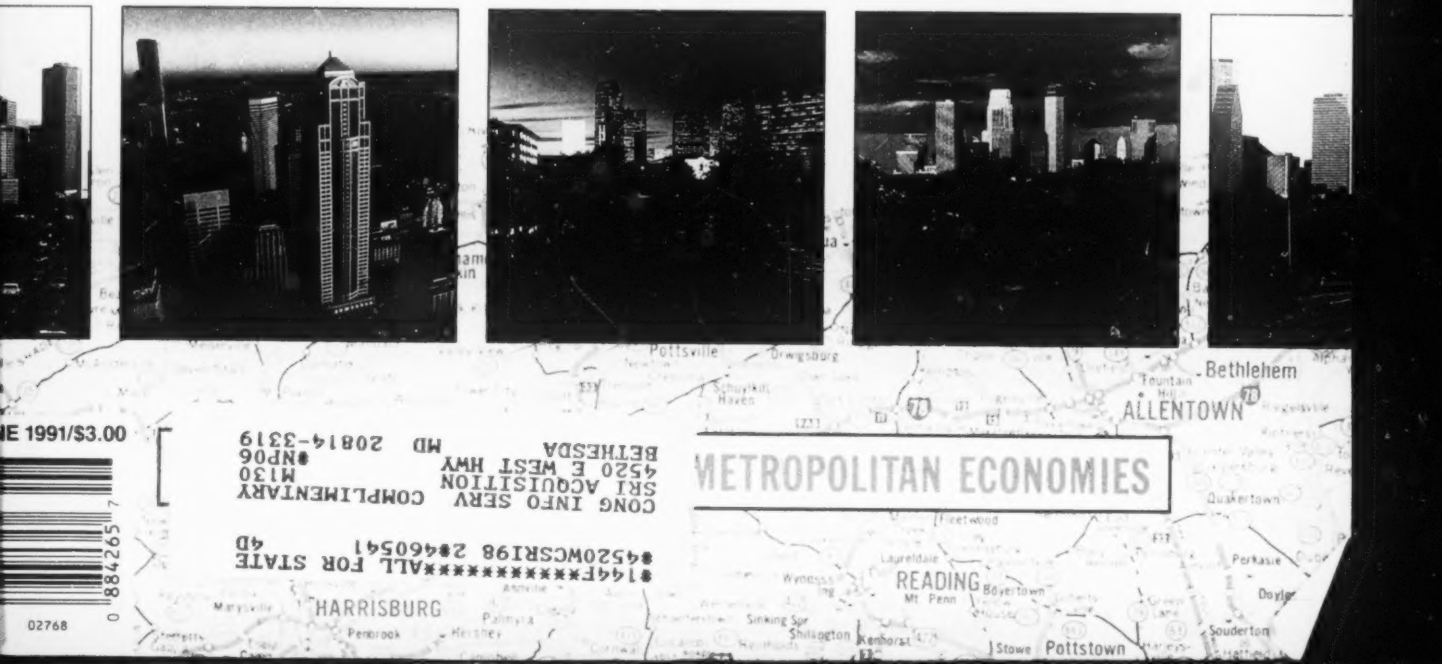
***And more!***

# THE FASTEST-GROWING CITIES IN AMERICA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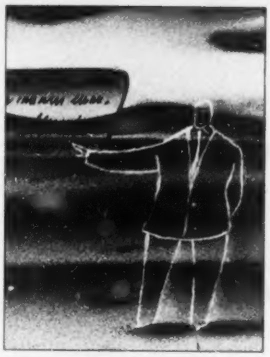

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# Where the GROWTH Is

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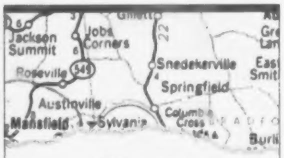
EDITORS' CHOICE
The best cities for growing businesses in every region of the country



### If you know which signs to follow, you'll find thriving markets all over America

■

BY JOHN CASE

WHAT A DIFFERENCE A PLACE MAKES.

Boston's theme song these days could be "Brother, Can You Spare a Dime?" In a grim reprise of its mid-1970s blues, the city has lost tens of thousands of jobs, its unemployment rate nosing toward double digits. Residents of Charlotte, N.C., by contrast, are whistling while they work. Sure, there's a recession on—meaning that Charlotte's jobless rate has crept up to a still-tight 4%. Between 1988 and 1990 the Charlotte area gained 26,000 new jobs.

Disparities of such magnitude spill into every corner of the business world, affecting the health of existing companies and the life prospects of new ones. A stark symbol of the difference: Blackstone Bank & Trust Co., a four-year-old Boston start-up designed as a high-service community bank, recently went belly-up, its deposits transferred to a larger competitor. Charlotte's not-quite-two-year-old Bank of Mecklenburg, founded on much the same concept, has grown to $52 million in assets; cofounder John Ketner is predicting a profitable 1991, based mainly on loans to small and midsize companies. Quick: which city would you rather be doing business in?

The United States has always been a collection of local and regional markets rather than one big one, and business conditions have always varied from place to place. "People talk about regional recessions as if they're unusual," says Stanley Duobinis, senior vice-president with The WEFA Group, an economics consulting firm in Bala Cynwyd, Pa. "But you can go back to 1946 and you won't find one that doesn't vary from region to region." Today's fax-and-computer communications networks may only intensify the disparities between the haves and the have-nots. Red Rose Graphics Ltd., of Lancaster, Pa., for example, is opening its second branch office in fast-growing Florida rather than in slower-growing areas closer to home, in part because work in process can easily be sent back and forth electronically.

Certainly the current recession has been drastically tilted toward the Northeast. "New England alone will account for one out of every five job losses nationally," predicts Beth Burnham Mace, an economist with DRI/McGraw-Hill Inc., the economic-forecasting and consulting firm. "Yet the region has only 6% of the nation's jobs." While the Boston-to-Washington megalopolis staggers, plenty of cities are growing apace—and not just in Florida and California. Seattle gained 23,000 jobs between 1988 and 1990, Dallas 66,000, with only modest letups in more recent months. Even the Midwest has held its own, with regional capitals such as Indianapolis and the Twin Cities pausing only slightly from the rapid recovery of the late 1980s. "Indianapolis must have one of the strongest economies in America," brags Scott L. Toussaint, whose temporary-help business is enjoying its best year ever. "If I weren't already in this city, I'd run, not walk, here."

Growth-minded entrepreneurs are always tempted to run to where business is best, whether it's to start a new company or expand an existing one. Before you do any running of your own, however, remember

MAPS: COPYRIGHT © 1991 BY H.M. GOUSHA, A DIVISION OF SIMON & SCHUSTER

*Dallas*

that the nation's metro areas are as volatile as they are different. Not so long ago the New York City area was poised for several years of growth, while Dallas—though few knew it—was on the edge of collapse. Today Dallas is sailing out of the economic doldrums, and New York is sinking into them. But how long will either city continue on its current course? And how long will Charlotte or Indianapolis or Seattle stay on the fast track? As mavens of any marketplace know, the past is seldom an adequate guide to the future—particularly when there's a recession on.

Faced with such uncertainty, *Inc.* this year is forgoing its customary top-to-bottom ranking of metro areas. Instead, we've assembled a variety of data indicating not only which cities are growing, but why, and which can expect to do best in the future. One result of this investigation: a list of top performers no businessperson can afford to ignore. (See "Editors' Choice," page 78.) These are cities—two in every region of the country—that are outpacing their neighbors during the current slowdown and are best poised to take advantage of the recovery when it comes. If awards were handed out for solid, long-term growth, these are the cities that would win the ribbons.

But you don't need to live in a best-of-show region to understand the importance of your city's health to your company's health. What you need to know is what separates the winners from the losers.

## PEOPLE

A growing economy requires a growing population. That's a truism, but it's been given a twist by the demographics of America in the 1990s. In the past workers went where the jobs were, leaving Mississippi or Appalachia for Chicago and Detroit. In today's labor-short economy, argues MIT researcher David L. Birch, jobs have to follow workers.

"The demographics cut in sharply in the mid-1980s," Birch explains. "That's when the baby boom was finally absorbed into the labor force and we began seeing unemployment rates down around 3% and 4%. Today the work force can dictate the location of employment." Economic growth is thus beginning to follow population movements, rather than vice versa. "The places that are doing well are the places people want to be."

That, says Birch, is why Sun Belt cities such as Las Vegas and Fort Myers, Fla., perennially top the population-growth charts. Forget jobs: people move away from the high costs and cold of the North to places that look cheaper and more pleasant, and feel confident they'll find work once they get there. Businesses then spring up to serve them; others spot an abundant supply of labor and move in. Even in Florida, the influx of residents no longer consists mainly of retirees. The working-age population in Fort Myers and Fort Pierce, for example, has been growing at more than four times the national rate.

Birch's argument also explains why "edge cities" such as Riverside, in the so-called Inland Empire just east of Los Angeles, have been thriving. "People came in because of the lower costs here," says André Richards of the Riverside County Economic Development Agency. "As the population boomed businesses began noticing this newly forming market and began moving in themselves." A similar phenomenon is visible in the otherwise sluggish Northeast. Though New York City itself isn't growing much, the city's northern New Jersey suburbs are bursting at the seams. And the healthiest outlying cities are those such as Lancaster, Pa., where a low-cost, high-quality style of life attracts and holds a steady stream of new residents. Moral: the place to start or expand a business these days is where the people are.

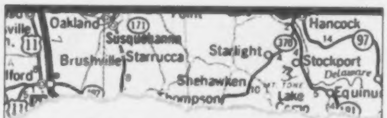
Marketers, take note: in general, population growth translates into growth in a metro area's total earnings, which is a pretty good proxy for what a region's residents have to spend. Rank U.S. cities by earnings growth, and leading the list will be many of the same Florida and California cities that

PHOTOGRAPH: MARK SEGAL/TSW

top the population rankings. In city-to-city comparisons, places with growing populations outpace their neighbors economically. Metro Cleveland lost residents between 1988 and 1990, and its earnings grew only a little. The Twin Cities in Minnesota gained people—and the area's earnings grew five times as much as Cleveland's.

### MUSCULAR ECONOMIES

Though an expanding population fuels local markets, population growth alone is no protection against collapse—ask the thousands who flocked to Houston in the early 1980s, just in time to watch the region's oil-based economy crumble. So how do you separate flash-in-the-pan booms from solidly based growth? Experts point to three characteristics of a truly muscular metro economy:



#### MOST POPULATION GROWTH

1988 TO 1990

| | |
|---|---|
| RIVERSIDE/ SAN BERNARDINO, CALIF. | 10.9% |
| LAS VEGAS, NEV. | 10.9% |
| NAPLES, FLA. | 9.6% |
| FORT PIERCE, FLA. | 8.7% |
| FORT MYERS/CAPE CORAL, FLA. | 8.5% |

#### MOST PERSONAL-EARNINGS GROWTH

1988 TO 1990

| | |
|---|---|
| FORT PIERCE, FLA. | 11.2% |
| WEST PALM BEACH/ BOCA RATON, FLA. | 11.1% |
| ANAHEIM/SANTA ANA, CALIF. | 11.1% |
| FORT LAUDERDALE/ HOLLYWOOD, FLA. | 10.0% |
| SANTA ROSA/PETALUMA, CALIF. | 9.9% |

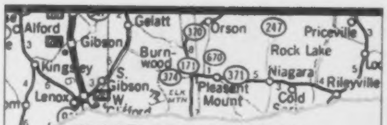
*It's more than just an overheated real estate sector.* In some of the nation's fastest-growing regions, growth itself is the major industry; the hottest companies are in real estate development, construction, and finance. But "construction is a weird sector," points out WEFA's Duobinis. "To have growth, you can't just be adding new buildings; you have to add more new buildings than before." When the pace of expansion slows, construction workers are suddenly out of work, property values plummet, and credit dries up.

That is a clear and present danger for places like the Vallejo/Fairfield region just north of San Francisco, where construction employment grew by 14% between 1988 and 1990. But real estate overheating has plagued cities from New Hampshire to New Mexico. In Minneapolis, says Norwest Corp. economist Larry Wipf, an otherwise healthy economy is haunted by the specter of four big office towers now under construction. "We'll end up with a glut of space we'll have to work through," says Wipf with a sigh. "Construction employment will dip, and that will retard the recovery as we come out of the recession."

*It trades—in part—on a specialty.* Big cities, like big companies, used to think of themselves as conglomerates, each metro business world a microcosm of the national economy. No more. The most prosperous areas are those that specialize in at least one industry, which they then "export" to the surrounding region, nation, or world. Examples? Think of San Jose's technology, Los Angeles's movies, Orlando's Disney-based tourism. Charlotte may be a second-tier city, but it is a top-level banking center, the fourth largest (by bank assets) in the nation. A key specialty for some cities these days is internationally traded goods and services. Most economists figure that export growth will fuel the recovery, which in turn will boost anyone who's doing business overseas.

*Yet it's diversified enough to weather a downturn.* The one blot on Seattle's robust growth of recent years is the area's dependence on The Boeing Co.: the city fell with Boeing two decades ago and rose with it in the '80s. Today the company still has a huge backlog of orders, from both U.S. and foreign customers. But turbulence in the airline industry could affect Boeing's order book, and the reverberations would shake the region. "Everyone watches to see what happens with Boeing," says Phil LeDuc, vice-president of $1.6-million LeDuc Packaging Enterprises Inc.

Other cities, by contrast, are less dependent on their key industries, let alone on any one company. Los Angeles has become a growing manufacturing and financial center as well as the world's entertainment capital. Indianapolis boasts a thriving insurance business as well as plenty of industrial employers. And who could fault the flourishing economy of Lancaster, Pa., which has done well across a lot of boards? Lancaster's metro area may be small, but it's a regional leader in agriculture, manufacturing, and—thanks to the Amish—tourism. "We're on the tail end of recessions generally because we're so diversified," says Sam Lombardo, chief executive of a $5.5-million insurance agency in the city. "And when the recovery comes to the rest of the country, I think Lancaster will begin to spread its wings."



#### MOST JOB GROWTH

1988 TO 1990

| | |
|---|---|
| FORT PIERCE, FLA. | 10.7% |
| WEST PALM BEACH/ BOCA RATON, FLA. | 10.4% |
| ANAHEIM/SANTA ANA, CALIF. | 9.8% |
| FORT LAUDERDALE/ HOLLYWOOD, FLA. | 9.1% |
| SANTA ROSA/PETALUMA, CALIF. | 8.5% |
| OXNARD/ VENTURA, CALIF. | 8.0% |
| LAS VEGAS, NEV. | 7.8% |
| OCALA, FLA. | 7.6% |
| MIDDLESEX/SOMERSET/ HUNTERDON, N.J. | 7.6% |
| SANTA CRUZ, CALIF. | 7.4% |

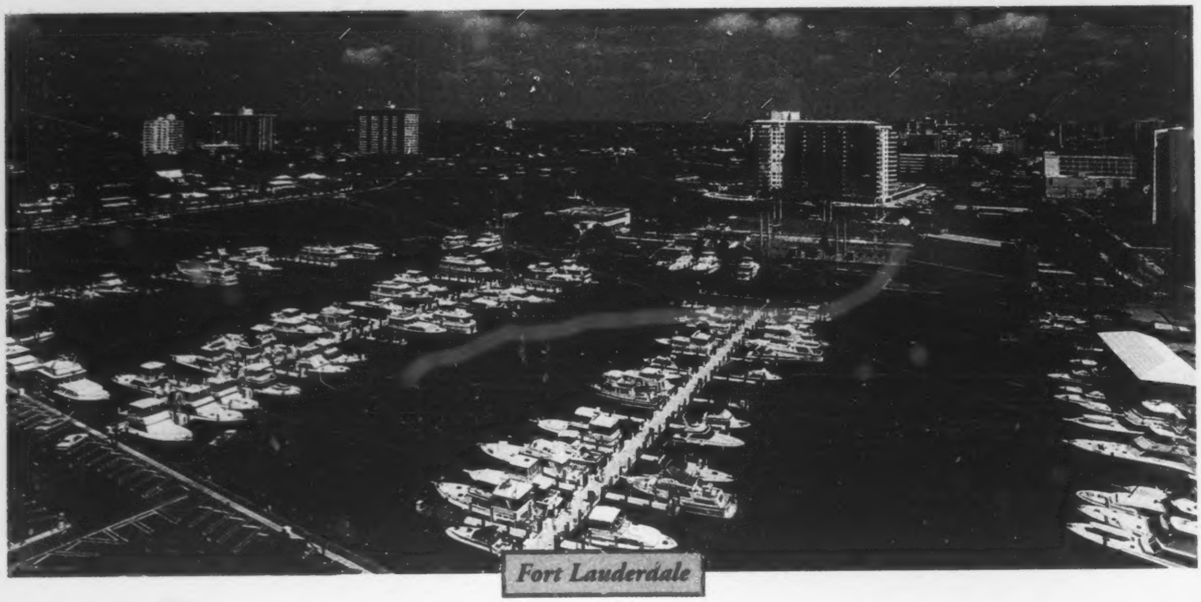
#### MOST RETAIL SALES GROWTH

1988 TO 1990

| | |
|---|---|
| FORT LAUDERDALE/ HOLLYWOOD, FLA. | 18.2% |
| ANAHEIM/SANTA ANA, CALIF. | 17.9% |
| SANTA ROSA/PETALUMA, CALIF. | 16.6% |
| ORLANDO, FLA. | 16.4% |
| SANTA CRUZ, CALIF. | 16.1% |
| ATLANTIC CITY, N.J. | 16.0% |
| WEST PALM BEACH/ BOCA RATON, FLA. | 15.6% |
| SAN JOSE, CALIF. | 15.0% |
| OXNARD/ VENTURA, CALIF. | 14.0% |
| BURLINGTON, VT. | 13.9% |

### NEW BUSINESS

The one growth factor no metro area can ignore is new and growing business. "One of the things we've noticed is the number of small and medium-sized manufacturing companies that have expanded their operations and created jobs here," says an appreciative



Fort Lauderdale

Timothy Monger, president of the Indianapolis Economic Development Corp., pointing out that large manufacturers have generally been downsizing. Among the upstarts: 11-year-old Pure Corp., a manufacturer of industrial cleaners, which so far has barely noticed the recession. "We've experienced annual growth rates of about 20%," says CEO Ted Schenberg, "and we expect another 15% gain in 1991. Things look pretty bright in Indianapolis."

Writ large, entrepreneurial bullishness of this sort translates into the creation of whole new industries, which in turn lay the groundwork for future metro specialties. Orlando has spawned a budding film- and video-production industry, swelling from $2.5 million worth of activity in 1986 to more than $82 million last year. The Seattle area (Microsoft, Aldus) and Salt Lake City area (WordPerfect, Novell) have developed booming software industries. Burlington, Vt.—thanks to an enabling state law—has recently become home to some 215 "captive" insurance companies, self-insuring subsidiaries of large corporations or trade associations. The effect on entrepreneurship: most of the captives have hired newly formed management companies to handle their paperwork.

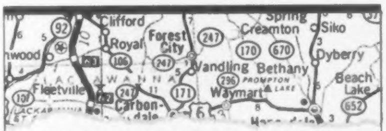
As a statistical matter, new-business creation follows population movements, which is why most of the "business starts" leaders on the accompanying charts are also growing in population. But every now and then entrepreneurship sprouts in some unexpected places, giving a boost to a metro area that would otherwise be unremarkable. Greater Philadelphia probably houses more biotech start-ups than any other place east of San Francisco Bay. Akron has christened itself Polymer Valley and has spawned dozens of new, growing plastics-related enterprises.

Then there's the unlikely case of the Utica-Rome metro area in central New York State. Like the rest of its region, Utica has seen grim times in recent years; factories have been closing, people leaving. The city's earnings growth between 1988 and 1990 was less than half the national average. But staying behind, explains one resident, are "hard-core Uticans," who have created a healthy number of high-growth businesses. Among them, Conmed Corp., a producer of medical devices and disposable products, is up to an estimated $35 million in sales this year, from less than $20 million two years ago.

### A TALE OF TWO CITIES

All those factors play off one another, of course, creating virtuous (or vicious) cycles of growth (or decline). Take the examples of Boston and Charlotte, which illustrate the dynamics of boom and bust in today's economy.

For Boston, the Massachusetts Miracle came to an abrupt end: after years of expansion the region suddenly found itself an economic basket case. What happened? "A whole bunch of cycles came together at once," says Stanley Duobinis, "and they were all



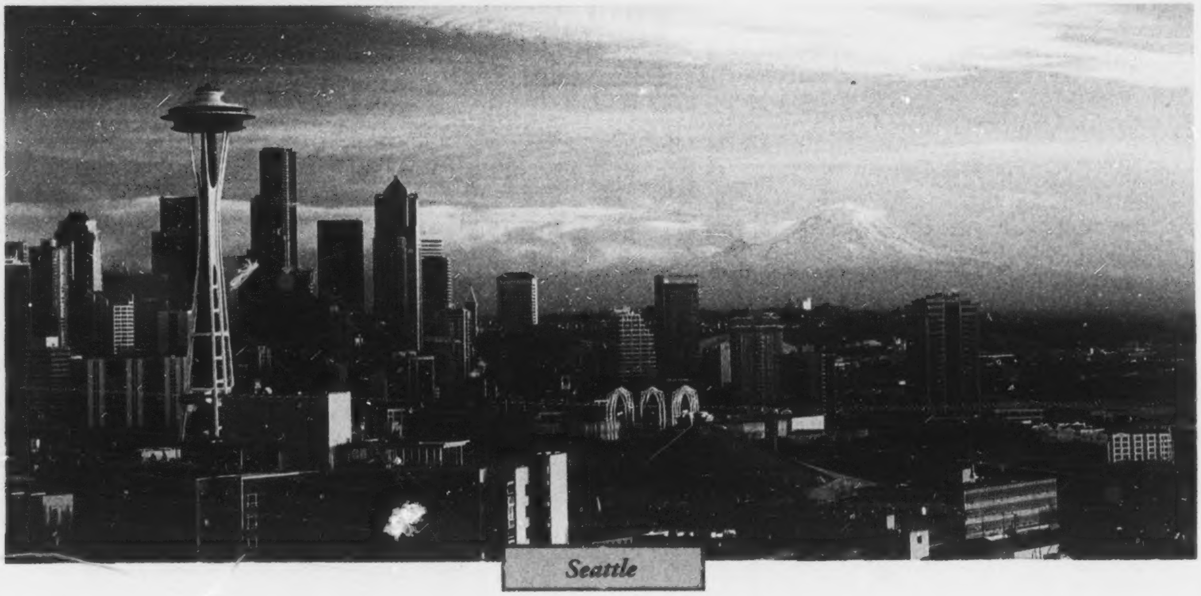
### MOST BUSINESS STARTS
1988 TO 1990

| | |
|---|---|
| LAS VEGAS, NEV. | 1.7% |
| ORLANDO, FLA. | 1.4% |
| CHARLOTTE, N.C. | 1.3% |
| ATLANTA, GA. | 1.2% |
| HICKORY, N.C. | 1.2% |
| CHARLESTON, S.C. | 1.2% |
| NASHVILLE, TENN. | 1.2% |
| EL PASO, TEX. | 1.2% |
| RIVERSIDE/ SAN BERNARDINO, CALIF. | 1.1% |
| GREENVILLE/SPARTANBURG, S.C. | 1.1% |

### MOST HIGH-GROWTH COMPANIES
1988 TO 1990

| | |
|---|---|
| SAN JOSE, CALIF. | 8.1% |
| UTICA/ROME, N.Y. | 7.1% |
| WASHINGTON, D.C. | 6.9% |
| HICKORY, N.C. | 6.7% |
| TERRE HAUTE/ BLOOMINGTON, IND. | 6.6% |
| LANCASTER, PA. | 6.5% |
| WILLIAMSPORT/ STATE COLLEGE, PA. | 6.4% |
| BURLINGTON, VT. | 6.4% |
| RENO, NEV. | 6.4% |
| TALLAHASSEE, FLA. | 6.3% |

PHOTOGRAPH: J. MESSERSCHMIDT/TSW



Seattle

negative." Housing and commercial real estate were overbuilt. When the market turned, banks from tiny Blackstone to giant Bank of New England found themselves insolvent. Meanwhile, defense spending was shrinking and the minicomputer industry, headquartered in eastern Massachusetts, was in the tank. The result: rising unemployment, shrinking credit, and a state-government fiscal crisis, all feeding an increasingly sour outlook on the part of consumers and businesspeople. Between 1988 and early 1991, The Conference Board's widely watched consumer-confidence index for New England fell more than 75%.

Charlotte's story in recent years was different in every particular. For decades the city was a sleepy financial and commercial center for the cotton and textile industries, serving the Piedmont region and not much more. As the Southeast grew, however, Charlotte was well situated to cash in. Its biggest banks, solidly based in cotton and textiles—and already operating statewide—began moving into other parts of the region. National manufacturers and wholesalers began locating warehouse and distribution facilities around the city, taking advantage of its strategic location on I-77 and I-85. Today Charlotte is number four nationally in banking (as measured by assets) and number six in wholesaling. The population of surrounding Mecklenburg County grew by nearly 12% between 1985 and 1990, with employment up 22%.

The result of all that development: a cascade of economic benefits, each one feeding the other. Earnings up 5% and retail sales up 10% in the last two years, both figures well above the national average. More foreign companies locating in the region, thanks in part to a fast-growing international airport. And yes, the region's economy is increasingly diversified. Despite Charlotte's specialization in banking and distribution, manufacturing employment has increased nearly 10% since 1985. The city is also emerging as a major regional health-care center.

Maybe not surprisingly, Charlotte has become a great place to start a company, ranking third nationally in the number of start-ups and 11th in proportion of fast-growing businesses. Ten-year-old Broadway & Seymour, a $37-million software developer that counts banks among its major clients, has been growing by more than 30% a year. John Ketner's new Bank of Mecklenburg has crept into a local-banking niche vacated by ever-expanding giants such as First Union National Bank and NCNB National Bank. Power-plant operator Cogentrix Inc., twice the top-ranked company on *Inc.*'s annual listing of the 500 fastest-growing private businesses in America, is based in Charlotte. One factor in capital-hungry Cogentrix's early growth was the fancy financial resources it could find close to home. "We'd call investment bankers in New York, and they wouldn't even return our calls," says project manager Robin Spinks with a laugh. "Our banking relationship with NCNB was very important to us in our early days."

And what of the future? One big strike against Boston, say economists, was the high rents and wage rates generated during its boom years. And one big attraction of Charlotte has been its relatively low costs. In time—but probably not for several years—those factors will tend to equalize. Ultimately, each city will have to trade on its long-term assets: Boston on its research universities and highly educated work force, Charlotte on its sunny climate and strategic location. What's likely to make the difference is how many people choose to build businesses in either city.

At the moment, the odds favor Charlotte. But metro areas have given us more than a few surprises over the years, as policymakers and businesspeople have learned to invent or take advantage of new strengths. The top performers on the following pages weren't always the best cities for business, and they may not be so forever.

Still, right now, they're the places to be. ❑

***(METRO REPORT continued on page 78)***

PHOTOGRAPH: CLIFF HOLLENBECK/TSW

# Editors' CHOICE

## America's best cities for growing a business

## NORTHEAST

### BLUE RIBBON: BURLINGTON, VT.

*Escaping New England's gloom*

■

**SCORECARD (1988 TO 1990)**

Population growth: 3.1%
New jobs: 5,300
New companies: 35
High-growth companies: 43

Burlington's recession has been kinder and gentler than the rest of New England's. The difference? The city is home to stable employers such as IBM; its breathtaking Lake Champlain location ensures a steady stream of well-educated newcomers; and its proximity to Montreal attracts Quebec companies seeking a U.S. foothold. A second factor: astute public policies. Vermont's strict development laws, for example, shielded the area's banks from a real estate boom and bust. "The isolation doesn't hurt us," says Holographics North founder John Perry. "We're only five minutes from the airport. Heck, everybody's only five minutes from the airport."

### RUNNER-UP: LANCASTER, PA.

Lancaster's biggest employers are an interior-furnishings manufacturer, a printer, a hospital, and a farm-equipment maker. Such variety, says finance professor Gary Leinberger, has spared the city the fate of its less diversified neighbors. The prototypical Lancaster entrepreneur: S. Dale High, whose family-owned High Industries Inc. has expanded from steel fabrication and concrete production into real estate, hotels, food services, and compact-disc manufacturing.

## SOUTHEAST

### BLUE RIBBON: ORLANDO, FLA.

*Oranges and tourists? No longer*

■

**SCORECARD (1988 TO 1990)**

Population growth: 7.6%
New jobs: 40,800
New companies: 276
High-growth companies: 223

Talk about your big, stable industries: Orlando is home to Walt Disney World, Universal Studios Florida, and dozens of other theme parks and attractions; it boasts the most hotel rooms of any U.S. city. Even so, business travelers at Orlando International Airport now outnumber tourists 56 to 44. Growing manufacturers such as Florida Polymers have sprung up (or moved in) to take advantage of the city's expanding work force. Distributors and wholesalers that once operated out of Atlanta have set up facilities in Orlando, at the center of what's now the fourth-most-populous state. New industries include film production, military simulation and training, and laser-optic technologies.

▲

### RUNNER-UP: CHARLOTTE, N.C.

Last year alone 413 companies started in or expanded or relocated to Charlotte, investing $266 million and creating 6,800 new jobs. One effect of the recession: Charlotte companies aren't placing quite so many help-wanted ads in West Virginia newspapers.

## MIDWEST

▲

### BLUE RIBBON: INDIANAPOLIS

*Middle America's best-kept secret*

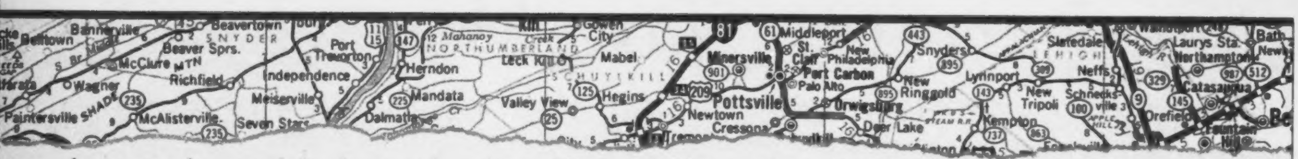
■

**SCORECARD (1988 TO 1990)**

Population growth: 1.6%
New jobs: 12,800
New companies: 239
High-growth companies: 181

The old jokes told of "Naptown" and "India-no-place." Just don't laugh too hard. For while Rustbelt neighbors have scrambled to stave off hard times, Indianapolis has sailed into the '90s with a well-diversified economy. Traditional smokestack employers have

PHOTOGRAPHS: (TOP) ROGER BALL/PICTURESQUE; (BOTTOM) CATHLYN MELLOAN/TSW



been supplemented by buttoned-down newcomers such as discount broker Charles Schwab, which recently sited a branch there. Certainly the local marketplace has been good to Technical Resource Group, an executive-search firm that's grown to $2 million in just five years. "It's because of the industries we trade in—engineering, health services, insurance," says president Roger Brummett. "We've really been insulated from the effects of the recession."

### RUNNER-UP: MINNEAPOLIS/ST. PAUL

Factor out an overheated construction industry and you'll still find the Twin Cities spawning small-company growth. One happy company owner: McRae Anderson, head of a $1-million interior landscape design and maintenance business in St. Paul. "Our sales were up last year," says Anderson. "They will be this year, too."

## SOUTHWEST

### BLUE RIBBON: DALLAS/FORT WORTH

*On the way back*

■

**SCORECARD (1988 TO 1990)**

Population growth: 4.2%
New jobs: 66,400
New companies: 883
High-growth companies: 686

Five years ago, says University of Texas professor Donald Hicks, the Dallas/Fort Worth "metroplex" was in "free fall." But rents and land prices in the area got so low that—surprise!—businesses began to move in. Last year Dallas ranked first nationally in the number of new or expanded corporate facilities. And the hard years of the recent past have left companies of all sizes in fighting trim. "We had a good year," says Aggie Jordan-DeLaurenti, who runs a $14.5-million technical-training company. "But I've learned to be real careful about expenses." One engine for future development: the area's fast-growing telecommunications industry, number two in the nation, with the 10 biggest companies alone employing more than 50,000 people. Among the up-and-comers is SRX Inc., which recently signed a contract with Motorola to market a newly developed emergency 911 hardware-and-software system. The company's anticipated 1991 sales: about $25 million.

▲

### RUNNER-UP: SALT LAKE CITY

Like Dallas, Salt Lake City went into a slump a few years ago—and now, says William A. Maasberg, CEO of software developer Libra Corp., "we're going to lead the way out. We've got a lot of good, solid new industry here." Much of it is close to Maasberg's professional heart: the area has 450 computer and software-related companies, many started in the last several years.

## WEST COAST

### BLUE RIBBON: SEATTLE

*Everybody's favorite city*

■

**SCORECARD (1988 TO 1990)**

Population growth: 5.0%
New jobs: 22,600
New companies: 414
High-growth companies: 368

Seattle is Miss Popularity among cities. *Places Rated Almanac* ranks it number one. Company CEOs polled by real estate specialists Cushman & Wakefield say it's the best place to locate a business. The city's only problem? Too many people. "It's becoming a victim of its own appeal," reports *The New York Times Magazine.* Problems like that we all should have. "Growth may be slowing, but I don't think we're going to see anything that could be labeled a recession here," says Douglas H. Pedersen, an economist at Security Pacific Bank Washington.

Seattle doesn't rank high for new-company formation; more than some cities, it's dependent on one big employer, Boeing. But entrepreneurs who do put down roots there find the soil fertile. Annie Searle, a Midwest native who moved to Seattle 14 years ago, is now CEO of $1.5-million Delphi Computers & Peripherals. "Frankly, our company's on a growth trajectory that's compounding, not slowing down," says Searle. Let company owners in other regions worry about cautious bankers and credit crunches. "I don't have any problems at all getting money."

### RUNNER-UP: RIVERSIDE, CALIF.

The Inland Empire—50 miles east of downtown Los Angeles—is one of the fastest-growing metro areas in the country, meaning there are plenty of people to staff (and buy from) new companies. Compared with much of Southern California, it's cheap. "We had a lot of employees who couldn't afford more than an apartment," says Darrell Ratliff of Natives Sportswear Inc., a clothing manufacturer that recently moved there from Orange County. "When we relocated here, they could afford to buy their first home."

### *Behind the Numbers*

DATA ON POPULATION, EARNINGS, employment, and retail sales were provided by Woods & Poole Economics Inc., in Washington, D.C. Data on business starts and high-growth companies were compiled by Cognetics Inc., in Cambridge, Mass. The business-starts rate is the number of companies with 10 or more employees founded between January 1988 and July 1990, as a percentage of all businesses in the area. High-growth companies are those whose employment growth, in both absolute and percentage terms, exceeds a certain threshold. The percentage figure indicates the number of high-growth companies as a proportion of all young companies in the region.

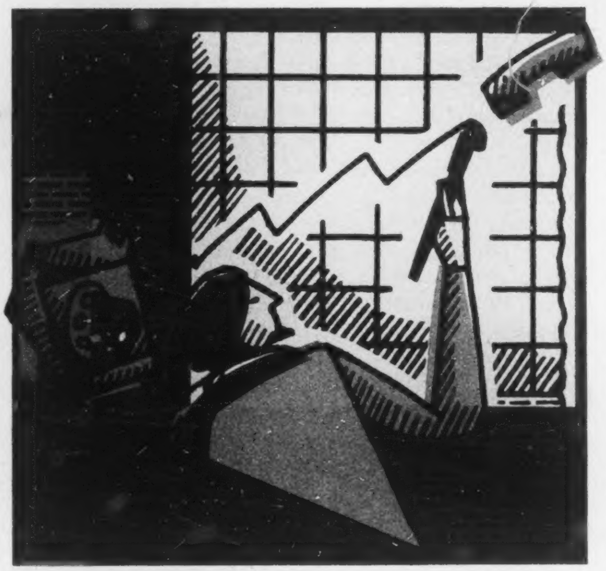
The data were assembled and edited by Special Projects Editor Sara Baer-Sinnott. Research assistance was provided by Alessandra Bianchi. ❑

PHOTOGRAPH: JOHN ELK/TSW; MAPS: COPYRIGHT © 1991 BY H.M. GOUSHA, A DIVISION OF SIMON & SCHUSTER

IDEAS AND RESOURCES FOR GROWING A BUSINESS

# Hands On

## SALES & MARKETING



TELEMARKETING

### *Getting the Most Out of the Phone*

USING THE PHONE TO SELL OR MARKET A PRODUCT or service is relatively cheap to try. Also, it's easy to stop or change a telemarketing program for any reason. So whether you're doing the calling in-house or hiring a service to do it for you, you can afford to experiment. To get the creative juices flowing, here are some ideas from Steve Idelman of Idelman Telemarketing Inc.:

- **Introduce mail with the phone.** You can call people to ask them to watch for material you've mailed—"Look for a white envelope with an orange stripe"—or you can ask their permission to send it. Mailing only to willing recipients saves postage and gives you a better qualified lead.
- **Follow up mail with the phone.** The mail piece itself should include a response vehicle—something to send back or a number to call—so you're not relying on the follow-up telemarketing call alone to induce action. But the follow-up phone call can double your response margin, claims Idelman, and may increase it as much as tenfold.
- **Conduct a market survey.** Use the phone to learn what features or benefits customers value in the product or service you propose to sell. Or you can use the phone to test a price. On the initial call, an $11 price point might bring you more revenue than a $9 one. But if on

*(Continued on next page)*

PROMOTING YOUR BUSINESS

### *Low-Cost Ways to Keep Market Share*

IF THE RECESSION HAS left you with more time than money, Ilise Benun and Anne Mascelli, of Creative Marketing & Management, in Hoboken, N.J., suggest you spend it promoting your business Here are three ideas that require no more than imagination and a little pocket change:

- **Donate products or services to industry trade associations or nonprofit groups.** Jacqueline Moore, CEO of Ridgaway Philips, a home nursing company, serves on the development committee of a Multiple Sclerosis Society chapter and recently donated her nurses' time to speak about how to care for MS patients. She has earned exposure for Ridgaway and will soon discuss the possibility of a contract with the society.
- **Exchange leads and information with noncompeting entrepreneurs in your market.** Last year, as Ken Potter, president of Martin's Potato Chips Inc., was designing a new facility, his son, vice-president Ken Potter Jr., visited 60 other chip factories to get ideas.
- **Expand your professional network.** Mike Voisin, general manager of Motivatit Seafoods Inc., in Houma, La., didn't have much clout with government regulators. But since he's become active in some 17 trade associations and industry councils, he's built alliances to help change regulations to benefit Motivatit and other seafood processors. *—**Researched by Teri Lammers***

#### IN THIS SECTION

GETTING THE MOST OUT OF THE PHONE
*Smart telemarketing tactics*

LOW-COST WAYS TO KEEP MARKET SHARE
*Ideas to promote your business*

RESOURCE: MARKET RESEARCH ON THE CHEAP

THE PACIFIC RIM ON A SHOESTRING
*Sell in a foreign territory as if it were another state*

LEARNING AND MEETING THE CLIENT'S PREFERENCES
*What do clients want? Ask them*

**Edited by Tom Richman**

ILLUSTRATION: NORMAND COUSINEAU

*(TELEMARKETING, from page 121)*

confirmation half the $11 buyers cancel, compared with 20% of the $9 buyers, then, Idelman says, you can deduce that $9 is probably the better price.

- **Conduct an after-market survey to find out whether you met your customers' expectations.** If you do that during a market test, Idelman says, "you'll get a good indication of what your long-term market success will be."
- **Use the phone to talk to your distribution network.** You can introduce new products over the phone, tell distributors about promotions, or handle routine inventory replacement.
- **Qualify leads for your field sales force.** By asking the right questions telemarketers can help your salespeople save time. But if you're going to have a telemarketing staff and a field sales staff working together, Idelman suggests, you should involve the field salespeople in designing the phone program. —*T. R.*

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## *Dial 800 for Your Nearest Store*

DIAL 800-4PRECOR AND no matter where you're calling from, your call gets connected to the fitness-equipment manufacturer's local retailer. You used to get an operator in Precor's Bothell, Wash., headquarters, who would direct you to the closest retailer and mail you any material you requested. Retailers, if they wished, could follow up by phoning the callers back. "The difference is that now we're getting prospects the minute they've decided to act," says Rob Jacobs, owner of The Walking Center, in Beverly Hills, Calif., which carries the Precor line. "That's when you want to talk to them."

To turn its national 800 number into a local call, $55-million Precor uses InstaLink, a service sold by Applied Telematics Inc. ATI charges clients for each call taken through its InstaLink system; the amount depends on the length of the call. The caller doesn't talk to an operator working from a script but to a local salesperson who knows the product. "The service is really about generating more sales," says ATI's president, Ian Michel. To learn more about ATI's services, call ATI, in Wayne, Pa., at (215) 687-3701. —*T. R.*

RESOURCE

## *Market Research on the Cheap*

**New-product research doesn't have to cost a bundle. The Wisconsin Innovation Service Center (WISC), for instance, conducts preliminary market research for a flat fee of $150. WISC taps a cadre of business-school students and some technical consultants to provide clients with a market-feasibility report that includes a competitive analysis and an overall risk rating.**

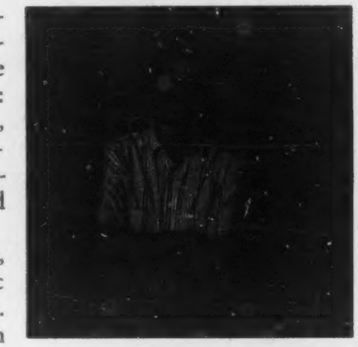
**WISC generates a report in 30 to 90 days and will consider drawings, videotapes, market-ready prototypes, or rough business plans. The nonprofit center also does ad hoc research.**

**It also sells a 129-page primer, *Marketing Ingenuity & Invention: An Innovation Guidebook*, for $15. Contact WISC at 402 McCutchan Hall, University of Wisconsin-Whitewater, Whitewater, WI 53190; (414) 472-1365.**

**— *Susan Greco***

SELLING OVERSEAS

## *The Pacific Rim on a Shoestring*



***International-sales pro Jeff Ake***

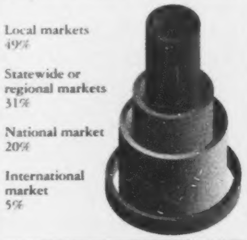
FOR SMALL COMPANIES the prospect of selling overseas can evoke nightmarish images: language problems, mixed signals, misdirected deliveries, customs restrictions, and unexpected tariffs.

But, says Jim Ake, founder of Electronic Liquid Fillers Inc. (ELF), a $12-million packaging-equipment company in LaPorte, Ind., "I basically look at a foreign territory as another state." As the international sales manager, Ake's son Jeff took responsibility for covering that territory. After only two months' preparation, Jeff Ake spent seven weeks making cold calls to 90 potential sales representatives and customers in the Pacific Rim. The trip cost $19,000 and generated $2 million in sales. His strategy can be used as a blueprint by any company that wants to sell overseas but doesn't know where to begin.

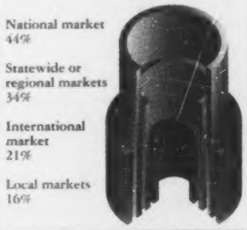
- **Line up leads the old-fashioned way—make cold calls.** Ake obtained many of his leads from foreign-based English-language magazines that cover his industry. He faxed or mailed letters to about 400 prospects, announcing ELF's search for sales reps in the Pacific Rim. The hundred who responded received a second fax or letter announcing Ake's impending visit and requesting detailed descriptions of their businesses. That was enough information for Ake to prioritize his appointments.
- **Keep your schedule flexible.** When Ake left the country, only about a third of his time was booked with appointments. The home office worked as an advance team, using the fax to set up and confirm more appointments for him while he was on the road. In each area, Ake picked up the local English-language equivalent of the yellow pages to find

### *Expanding Market Horizons*

*When you first started, where did you do most of your business?*



*Where are you doing most of your business now?*



*Note: Total is higher than 100% because of multiple answers.*

*Source: An Inc. survey of 463 private companies that reported a five-year growth rate of 713% or higher since 1985.*

CHART: ROSS CULBERT LAVERLY & RUSSMAN INC., NEW YORK; PHOTOGRAPH: KEVIN CRUFF

other prospects to fill out his calendar.

- **Package your pitch.** Ake produced two English-language videos—one for customer prospects and one for reps—to pave the way for his visit. He also produced a brochure explaining why ELF was a good company to work with, including specification sheets of products, drawings, and press clippings highlighting ELF.
- **Offer overseas customers the same level of quality and service you offer stateside.** On his Pacific Rim trip, Ake promised a 24-hour response time for price quotes—just as he does in the United States. He altered ELF's 10-day delivery promise only slightly for overseas customers—with a confirmed letter of credit, they can expect delivery in two to four weeks. *—T. L.*

CUSTOMER SERVICE

## *Learning and Meeting the Client's Preferences*

WHY IS IT, FORD R. Myers asked himself, that we can deliver jobs of equal quality to two clients, and one thinks we're great while the other never wants to deal with us again?

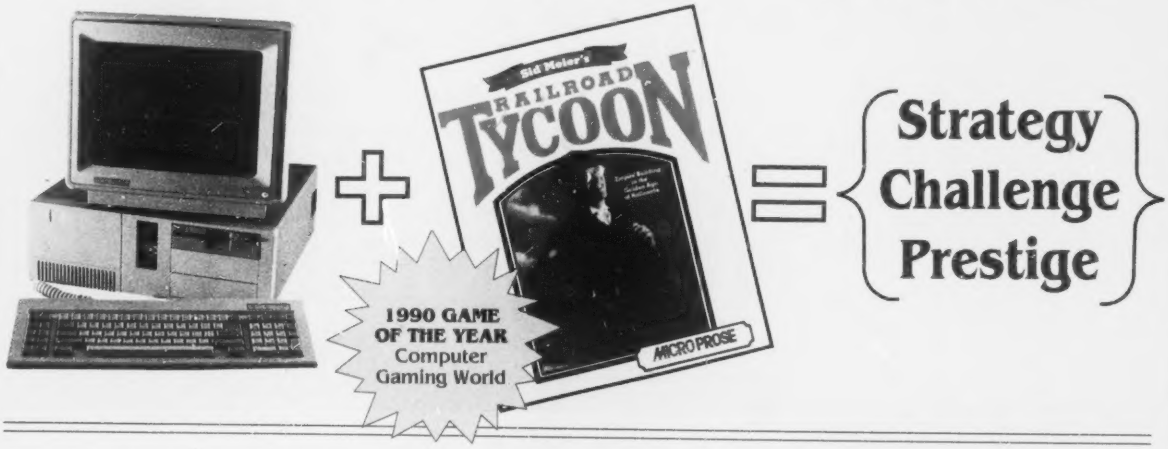
To try to answer that question, Myers, who heads Ford Myers & Co., a graphic-design firm in Ardmore, Pa., hired an independent research organization to interview prospective clients, current-clients, and former clients. Afterward, he concluded that he could better serve his clients by tailoring his company's operating style to their individual expectations. And the easiest way to find out what those expectations were was to ask. He drew up a one-page list of questions that he now asks all potential clients—and continually refines and updates.

Myers's questions run the gamut: they try to ascertain procedural ground rules ("Upon the project's satisfactory completion, will you require a detailed itemization of costs, or will our invoice be adequate to effect payment?"), and they attempt to set priorities ("Which is of paramount importance to you—scheduling and budget considerations, or innovation and creativity?").

Because straightforward questions don't always get straightforward answers, Myers often likes to chat informally with the client. When asked what is more important, maximum quality or staying within budget, many clients will say, "Both," but Myers's probing will reveal a distinct preference for one or the other. "I believe every client has one real primary concern," says Myers, "and I want to find out what it is."

Getting the information for the client-preferences profile takes Myers only about 15 minutes. If Ford Myers & Co. gets the job, Myers has the client-preferences profile typed. He briefs the staff on every new client and staples the typed profile to the job folder so everyone involved can see it and operate accordingly.
*—T. R.*

Finally, an equation we can all understand.



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# BANKING & CAPITAL

*J. J. Roberts's aggressive billing requests get results.*

### CUSTOMER FINANCING

## There's No Harm in Asking

IF THERE EVER WAS A STIGMA IN ASKING customers to bankroll the financial needs of your business, it seems to have faded away in the current financial environment. Today almost everyone understands that bank credit is tight. So if you explain your situation and ask for rapid payment, a lot of customers may be quite willing to comply.

Systronics Inc., for example, a $2.5-million maker of measurement and control systems for manufacturers, asks its customers to pay 40% of the purchase price whenever Systronics receives a purchase order. As soon as the orders are completed and ready for shipment, the Norcross, Ga., company faxes ahead another invoice to its customers, asking for a second payment of 50%. "If we haven't received that payment in 20 days or so, we start hounding them," says chief executive J. J. Roberts. Systronics expects customers to pay the remaining 10% owed on the order upon acceptance of the shipment, or net 30 days.

Roberts says the company encounters little resistance to its aggressive billing requests. Those customers who do complain are told that Systronics would otherwise have to charge more for its products or extend its deliveries by several weeks. "If we didn't do business this way," notes Roberts, "we wouldn't be able to finance our orders at our current prices and margins. We've tried to borrow more money, but no bank has been willing to increase its lending to us." *—B. G. P.*

### DEPOSIT INSURANCE

## How Much Are You Covered For?

IT'S WIDELY KNOWN that the Federal Deposit Insurance Corp. insures deposits up to $100,000. But what happens if a company and its owner maintain a variety of accounts at the same bank? To what extent are the assets protected in the event of a problem? We asked David C. Cates, chairman of Ferguson & Co., a Washington, D.C., company that specializes in bank-risk analysis and data publishing. Here are his findings:

- **Corporate accounts.** From the standpoint of the FDIC, Cates says, a company's payroll account and other accounts used for business transactions and short-term investments are viewed as one account. This is true even if they have different account titles. The insurance limit, therefore, is $100,000. If your balance exceeds that level in the course of the day, Cates says, it's prudent to instruct your bank to "sweep" the account down to the $100,000 level—in other words, invest excess funds—at the close of business each day. Even if the account is swept, you still need to be attentive to where the money is being invested.
- **Trust accounts.** The assets of trust accounts aren't seen as deposits. So if a bank fails, Cates says, those assets are generally immune to government seizure. One notable exception: if the assets are held in certificates of deposit of the failed bank, for insurance purposes they are considered deposits. In the case of employee-benefits trusts, insurance would protect the CD investment up to $100,000 per beneficiary, Cates says.
- **Personal accounts.** Under the rules, your personal account is insured up to $100,000, as are the individual accounts of your spouse and your children. If your balances exceed the insured limit and you have concerns about the safety of the bank, it's a good idea to have accounts in more than one institution. *—B. G. P.*

### IN THIS SECTION

**THERE'S NO HARM IN ASKING**
*When money's tight, ask for up-front payments*

**HOW MUCH ARE YOU COVERED FOR?**
*Are your accounts safe from bank failures?*

**PROTECTING YOUR PERSONAL ASSETS**
*How to insulate yourself*

**FINDING A NEW BANK**
*Get one that understands your business*

**RESOURCES: STALKING SEED CAPITAL**

**Edited by Bruce G. Posner**

PHOTOGRAPH: LYNNE SILER

DEAL STRUCTURES

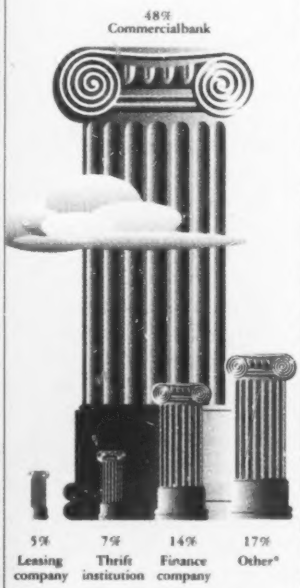
## *Protecting Your Personal Assets*

IN AN IDEAL WORLD, you probably wouldn't rush to provide personal guarantees on business loans. But these days bankers want all they can get. They want signatures—both yours and your spouse's—along with legal claims on houses and property. So what can business owners do to insulate personal assets in the event of trouble? Jeffrey Kosberg, a Cambridge, Mass., lawyer who specializes in workouts and business insolvency, offers this advice.

- **Don't use the same bank for all your loans.** Although it sounds simpler to deal with one bank for all your personal and business needs, it also poses greater risks. A late payment on one loan could trigger a domino effect, Kosberg warns.
- **If you have private investors, structure their participation as real loans.** Arrange notes or mortgages on property, even if you don't expect to pay those investors back. It's likely the bank will ask for seniority ahead of relatives and friends, Kosberg says, "but at least the notes will be there."
- **File a homestead.** Many states permit you to file a homestead with the registry of deeds, which protects your home equity against subsequent claims up to a statutory limit.
- **The entity that uses the funds should be the one that borrows.** If you can't get a business loan and you end up borrowing personally for funds to use in the company, don't stop there: use the funds as collateral for a business loan. What's more, insist that the business loan be further collateralized by business assets.
- **Make sure the bank has a secured interest in all business assets.** If the bank doesn't have specific claims on the assets and you run into trouble, your other creditors will try to claim them. "That means you'll have less available to pay off the bank loan, which you have personally guaranteed," notes Kosberg.
- **Resist bank attempts to have your spouse cosign.** Without your spouse's signature, the bank will not be able to realize value from a house you and your spouse own jointly. *—B. G. P.*

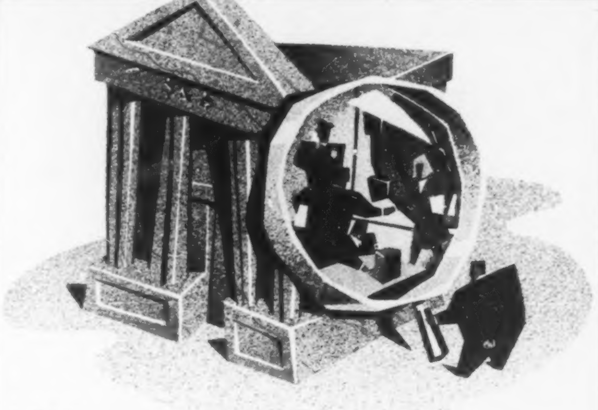
### *Where Small Companies Go for Credit*

*They may have more options today, but most still turn to local commercial lenders.*



** Includes owners, other individuals or businesses, money-market mutual-fund companies, brokerages, mortgage banks, and insurance companies.*

*Source: "Banking Markets and the Use of Financial Services by Small and Medium-sized Businesses," a survey of 3,405 businesses, including 2,899 companies with fewer than 50 employees. Board of Governors of the Federal Reserve System, Washington, D.C.; 1990.*



DEBT

## *Finding a New Bank*

BANK MARKETING DEPARTMENTS STILL PEDDLE the idea that small-business lending is keeping banks humming. But these days more and more banks are slamming doors on growing companies looking for new loans, even as they put the squeeze on existing borrowers. The chill in lending often has less to do with customers' problems than with those of banks. If your bank is freezing you out, how should you go about finding one that's better able to meet your needs?

**How to find a bank.** Even in tight markets there are usually a few lenders open to new businesses. The best way to find them is to pay attention to the performance of banks in your area and to ask around. "If a bank is earning 1% or more on its assets," offers Steve Cranfill, a principal at Management Advisory Services Inc., in Seattle, "it's probably more aggressive in its lending." Talk to businesspeople, accountants, consultants, and business groups. If you can, get specific names of bank executives and lending officers to contact. Personal introductions can be enormously helpful.

Many people who have gone through the process of looking for a new bank say it can take months, so it's a good idea to initiate contacts even before you're under any pressure.

**What to find out.** Once you've targeted the banks to approach, make a list of the issues you want to explore. Before providing a lot of detail about your own business, try to get a sense of how each bank operates. What's the management philosophy? How is the lending department organized? What level of the bank's hierarchy would you be dealing with, and what would happen should the person you are dealing with leave?

Sooner or later you'll want to probe other areas, too. What does the bank know about your industry? What does it like to see in the way of numbers, ratios, and other information? Also, how does the bank monitor credit? Does it try to work with customers who run into problems, or does it panic?

Don't expect bankers to be totally candid. To get a fuller picture of a bank's lending policies and service, talk to current and former customers, suggests Ed McClelland, a former banker now consulting

*(Continued on next page)*

CHART: ROSS CULBERT LAVERLY & RUSSMAN INC., NEW YORK; ILLUSTRATION: MARTY BRAUN

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*(DEBT, from page 129)*

to small businesses in Dallas. Even when you're looking around, be careful not to burn your bridges with your existing bank; you might not find anything better.

**How to make the decision.** In the end what you really want to figure out is which bank can make the strongest commitment to understanding your business and meeting your needs. Who will be the best business partner? Relative costs—the interest rates and fees—should be a factor in your decision, but a more appropriate consideration nowadays should be the financial health and integrity of the bank. "If you really want to make a good decision, take time to get to know the people you'd be dealing with," says McClelland. In the rush to get away from frustrations with one bank, the last thing you want to do is to fall victim to problems at another. *—B. G. P.*

RESOURCES

## *Stalking Seed Capital*

**Looking for money to fund your new business? Don't overlook seed-capital funds, particularly if your idea is technology based. In recent years a number of seed funds have been created by state and local governments eager to generate jobs and growth in their particular areas.**

***The 1989 Survey of State Sponsored Seed Capital Funds*, prepared by the Advanced Technology Development Center, in Atlanta, provides an overview of the seed-capital industry and a list of 50 players and potential players as of 1989. It's available for $21.50 from National Business Incubation Association, 1 President St., Athens, OH 45701.**

**An updated report on seed investing is available from Emory University, in Atlanta. The report will list established funds as well as addresses and phone numbers of several new funds. Send $21.50 to *The 1990 Survey of Seed Capital*, c/o Richard T. Meyer, Emory University Business School, 1602 Mizell Dr., Atlanta, GA 30322. *—B. G. P.***

# MANAGING PEOPLE

*Peggy Brown taps the temp circuit for reliable workers.*

### WORK FORCE

## The Art of Hiring Professional Temps

IN THEORY, THE WIDESPREAD AVAILABILITY OF temporary professional workers is a small-business owner's dream come true. You can hire everyone from cost accountants to road-and-tunnel engineers for as long as you need them. When your special project is finished, those temps conveniently disappear. And with professional temps, "there's enough do-it-on-their-own attitude that I can assign a task and not worry about it being done," says Peggy Brown, accounting manager of software publisher Aldus Corp., in Seattle.

**To find out which temp-help companies serve your area or to request a free directory, contact the National Association of Temporary Services, in Alexandria, Va., at (703) 549-6287.**

Consider two main areas in selecting a temp-help company: its basic characteristics and the way it screens its temporaries. Is it really a temporary-help company, or is it an executive-search operation? If it's the latter, your "temporary" worker may not qualify as an independent contractor under Internal Revenue Service rules. A temporary-help company can usually fill a position much more quickly—within hours—than an executive-search company can.

Make sure the company has been in business for a while. A seasoned firm should be able to guarantee an immediate replacement if you're not happy with the professional it sends over. If a temp will be

*(Continued on page 135)*

### SKILLS TESTING

## Free Help from Uncle Sam

TESTING JOB SKILLS CAN be a vexing experience. Sure, experts consider it the best predictor of job performance, but testing programs are pricey. Full-fledged programs in companies with 100 employees can cost from $15,000 to $50,000.

The U.S. Department of Labor can help companies that can't afford such programs. Here's what you do: call one of its 1,700 U.S. Employment Service—or Job Service—offices (usually in the blue pages of the telephone book, under "State Government") and place a job order and request for testing with the office. If the office determines a test is appropriate, and you want it to test and screen the job hunters you've found, you may agree to send to the employment office all those who respond to your ad. After evaluating candidates on the basis of test scores, experience, education, and other factors, the office will notify you of the best candidates. These are the three general areas of testing available:

- **Clerical skills.** This test covers the basics: typing, spelling, and dictation.
- **Literacy skills.** A test designed to measure reading and mathematical abilities.
- **General Aptitude Test Battery (GATB).** This test of nine aptitudes assesses verbal, mathematical, perceptual, and psychomotor abilities. It's also available for nonreaders and in Spanish. The Department of Labor may suspend use of the GATB, however, since it has been charged with being discriminatory against minority groups.

"Tests can be tremendously useful because they work," says John Hinrichs, president of Management Decision Systems, a consulting firm in Darien, Conn. The cost of a bad hire? "About three times the employee's salary," he says.

*—E. E. S.*

### IN THIS SECTION

**THE ART OF HIRING PROFESSIONAL TEMPS**
*How to screen a temp-help company to get the people you need*

**FREE HELP FROM UNCLE SAM**
*Skills-testing programs are free for the asking*

**RESOURCES: FAMILY-BUSINESS FORUMS**

**TURNING INFORMATION INTO PROFITS**
*Want to increase productivity? Give employees more information*

**RAISING THE BAR FOR BONUSES**
*To make bonuses work, make them more objective*

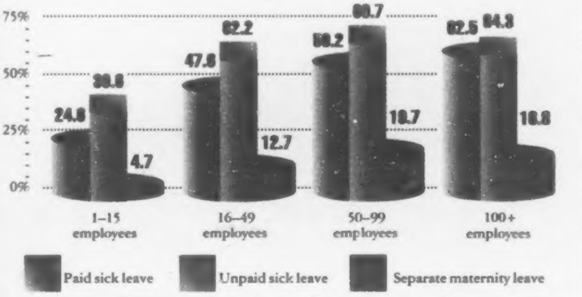
**Edited by**
**Ellyn E. Spragins**

PHOTOGRAPH: KEITH BROFSKY

### Company Leave Policies

*Does your sick-leave policy include a "job-guarantee" for managers when they return? Small companies trail large ones in this respect, but in companies with more than 15 employees, the gap quickly narrows. In fact, midsize companies had the best record of all.*

% of Companies That Promise the Same or Comparable Job upon Return from Leave



*Note: Leave time averages from one to two weeks in the smallest companies to three weeks in the largest ones.*

*Source: "Leave Policies in Small Business," a survey of 1,730 companies. U.S. Small Business Administration, Washington, D.C., 1990.*

*(WORK FORCE, from page 133)*

working with proprietary information, will he or she sign a confidentiality agreement? Look also for a firm that specializes in the discipline you're seeking. Its placement counselors should themselves have experience in that particular field in order to accurately gauge your needs.

Next, turn your attention to the quality of the firm's temporaries. The higher the company's selection standards, the better. The fact that a worker has been tested, for example, shouldn't necessarily reassure you. Job experience is more important. The firm should have checked previous jobs, references, and other credentials.

When it comes time to use a temporary, beware of the pitfalls. Aldus's Brown says she felt that temps placed an extra burden on her. "In a fairly long-term assignment you usually don't find out what a temporary can really do until a significant amount of time has elapsed," she says. "As a manager I'm taking more time to do stuff that I would delegate if I had a permanent worker."

And though temporaries are generally cheaper than regular employees, there can be hidden costs. Brown says overtime costs, which she wouldn't incur with a permanent employee, can add substantially to the bill. In a tight market, it's worth trying to negotiate a cheaper rate.

—E. E. S.

### TEMP RATES

**Average hourly earnings for professional temporary workers vary from region to region. According to the Bureau of Labor Statistics, a seasoned accountant or auditor can expect $12.78 an hour in Boston but only $8.99 in San Diego. Engineers average $26.10 in Indianapolis, but expect $29.11 in Seattle. Computer programmers pull in $18.04 an hour in Houston, but in San Jose, Calif., it's $22.33.**

RESOURCES

## Family-Business Forums

**If you'd like to meet with other family-business owners, check out family-business forums, which tackle such practical matters as valuing a closely held business, and such emotionally charged issues as succession planning.**

**Membership in the forums is restricted to family businesses, and dues run about $1,000. But the cost of forums can vary. The Family Business Program at Oregon State University, for example, sponsors half-day workshops around the state for a fee of just $50. To locate a group near you, contact Craig Aronoff, director of the Family Business Forum, at Kennesaw State College, in Marietta, Ga., (404) 423-6045.**

***—Susan Greco***

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PRODUCTIVITY

## Turning Information into Profits

"WE WERE MANAGING a $5-million company with systems fit for a $1-million one," says Clay Page of the market downturn his company, Co-op Building Consultants, in Corpus Christi, Tex., faced in 1989. So Page revamped the way his construction company tracks costs, schedules work, and trains employees.

The results? In just one year employees have become 40% more productive, with only a 6% rise in costs. And Page's business has increased by 10%. His strategy included

**1. Tracking costs in small units.** Page categorized construction tasks into 6,000 items (the average for his construction niche is 200), then entered them, along with the associated hourly cost for labor and materials, into a database. As a result he can calculate more accurate project estimates.

The company also provides employees with flowcharts diagramming the order of tasks and how long each should take. Employees note and report deviations from their flowchart estimates.

**2. Holding quarterly wrap-up meetings.** Page spends one day each quarter meeting with each of his six crews, sans supervisors, to discuss tasks that were 6% over or under budget. A supervisors' meeting, which Page does not attend, is also held. Beforehand, however, he does give supervisors a summary of his reactions to the past quarter's projects, including a list of problems to solve. Finally, at a 15-minute companywide meeting, information gleaned at each of the crew meetings is shared with everybody.

*(Continued on next page)*

*Clay Page's strategy boosted sales.*

CHART: ROSS CULBERT LAVERLY & RUSSMAN INC., NEW YORK; PHOTOGRAPH: STEVE PUMPHREY

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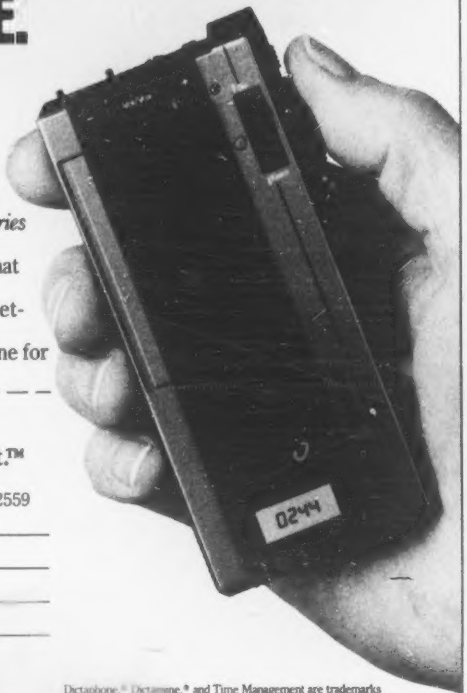

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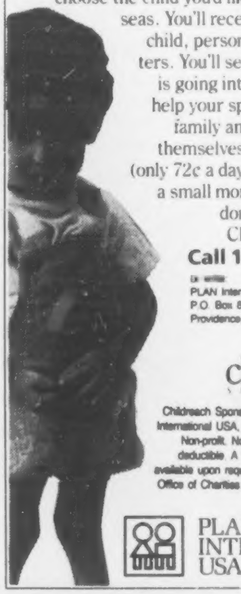

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*(PRODUCTIVITY, from page 135)*

**3. Sharing rewards with employees.** Page pays employees hourly rates just below union rates and attaches a bonus to each project based on time and profitability targets. That usually brings his 36 employees' wages above the union rates. He also posts pay rates for different skills as an incentive for workers to build their expertise.

Employees have adapted to the new management system so well that Page has promoted from within for all supervisory positions. "This system isn't made for everyone," he says, "but it's perfect for the hard workers we want on our side." *—Teri Lammers*

### COMPENSATION

## *Raising the Bar for Bonuses*

BONUSES SHOULD BE WONderful things to give and receive, but the classic year-end bonus—the one you get for making your budget numbers—often fails to motivate.

That's why Art Spinner, a founding general partner of Hambro International Venture Fund, is gravitating toward more objective bonus systems. At Tylan General, a $35-million instrumentation company in San Diego, he and other members of the executive committee have set up a new plan: the top four officers of the company must achieve 75% of their budgeted plan to get a bonus. Beyond that, the executives will receive a straight percentage of pretax net income.

Tylan CEO David Ferran's bonus, for example, is 6% of his pretax net income. Previously, he could get no more than 25% of his base pay in a year-end bonus, if the board decided he'd done a good job. "Now the sky's the limit," he says. This new approach motivates managers to increase sales and cut costs. Says Ferran: "If we find a way to save $1 million, that's 60 grand in my pocket. You'd better believe I'm looking for ways to save money." *—E. E. S.*

# FINANCIAL STRATEGIES

*Kroy's Klemmer opted for a prepackaged bankruptcy.*

BANKRUPTCY

## Speeding Up Chapter 11

BACK IN AUGUST 1989, HOWARD KLEMMER took over the presidency of Kroy Inc., a troubled $40-million manufacturer of labeling systems based in Scottsdale, Ariz. Among other problems, Kroy couldn't meet the $6 million in annual interest charges that resulted from a leveraged buyout that had taken it private in 1986. Klemmer, a turnaround specialist, tried to work out an informal payment stretch-out but ran into a roadblock: the Department of Labor named Kroy in a $35-million lawsuit because of objections to the pricing of stock in the LBO. "When our secured lender foreclosed on our note, our only choice was to reorganize under the protection of bankruptcy court," Klemmer recalls.

Kroy's general counsel, Craig Hansen of Streich & Lang, suggested the company opt for a "prepackaged bankruptcy." Companies using this strategy resolve as much of their negotiations and paperwork as possible before filing for Chapter 11—and get through courtroom proceedings in a small fraction of the typical 9 to 12 months.

"I wanted the company to be able to restructure itself so quickly that we wouldn't alienate anyone—particularly our network of 500 distributors—who'd be of vital importance to our economic well-being in the future," says Klemmer.

Such bankruptcy plans can take two forms:

**1. A completely presolicited plan,** in which the company receives approval for its proposed workout plan from every class of creditors

*(Continued on next page)*

OWNERSHIP TRANSFER

## The Time-honored ESOP

EMPLOYEE STOCK OWNERSHIP plans (ESOPs) continue to be a simple way to transfer ownership of private companies. They offer great tax advantages both to companies that use them and to banks that help finance them. When those breaks are combined with benefits from insurance policies, much of the cost of ESOP transactions can be offset.

Here's how the strategy works. The company owner sets up an ESOP in much the same way any benefits plan is established. Then the ESOP obtains bank financing to pay for the company stock the owner plans to sell to it. "Banks pay tax on only a portion of the interest paid to them by ESOPs, so they have an incentive to make these loans," says Richard Snipes, a benefits and insurance consultant at Barry, Evans, Josephs & Snipes Inc., in Charlotte, N.C.

The company, not its employees, then pays off the ESOP loan out of cash flow, by making contributions to the ESOP. That way, both the principal and the interest are tax deductible.

"The owner gets to sell off his stock at whatever annual pace appeals to him. There's no cost to the employees, who eventually get to take over the company. And for the company, the cost of the buyout is fully deductible," says Snipes.

There's only one big expense: the cost of buying out each employee, as is required by the IRS, upon the employee's departure. Normally, that's a burden the corporation has to bear, but Snipes suggests using company-owned life-insurance policies to provide the cash necessary when ESOP buyouts come due. "Companies can design policies so they will be financially cushioned, either through death benefits or by borrowing against the cash value that has accumulated in policies." *—J. A. F.*

**IN THIS SECTION**

**SPEEDING UP CHAPTER 11**
*Want to get out of court fast? Try a prepackaged bankruptcy*

**THE TIME-HONORED ESOP**
*A cost-effective method to transfer ownership*

**MAXIMIZING DIVIDENDS AND DEDUCTIONS**
*How to use "dividend capture" to get better returns*

**RESOURCES: THE REWARDS OF 401(K)S**

**TAKING CONTROL OF T&E**
*Tips to cover yourself*

**Edited by
Jill Andresky Fraser**

PHOTOGRAPH: KEVIN CRUFF

*(BANKRUPTCY, from page 139)*

before it even files for Chapter 11 bankruptcy protection.

**2. A plan in which many or all of the requisite documents and pleadings have been prepared in advance,** so that all that's left for the bankruptcy judge to do is to schedule meetings and plan the final financial settlement.

Of the two types of packaged bankruptcies, the first is the most effective, since there's nothing left to battle over by the time the bankruptcy plea is filed. But this type of settlement is possible only when the reorganization plan is simple and there aren't multiple layers of debt—and all major creditors are eager for an early resolution. Klemmer and Hansen didn't believe they stood a chance of negotiating with the Labor Department and the former shareholders, who were suing the company over the LBO's pricing.

So the men opted for plan two. Klemmer figured correctly that among his creditors his likeliest potential ally—one that was owed large sums, had a secured position, and stood to benefit the most from swift, even if partial, payments—was First Bank System, a Minneapolis bank that held nearly $27 million worth of Kroy's senior debt.

The planning stage lasted about one month, while Klemmer divided his time between conferences with his lawyers and communications with distributors, creditors, and employees. To monitor credibility among internal and external constituencies, he created a team of five key employees that communicated to all concerned what would happen during the bankruptcy proceedings, what bankruptcy would mean to each of them, and what Kroy's overall long-term goals were.

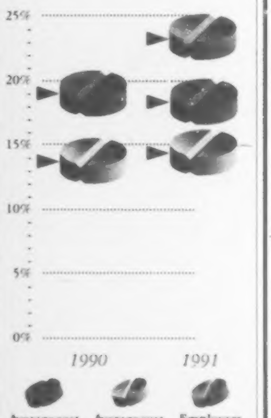
For Kroy, the packaged bankruptcy worked like clockwork. On May 15, 1990, the day of the filing, Kroy's lawyers were able to wheel into the local courthouse two pushcarts full of prepared legal documents, photocopies attached. The judge responded by quickly setting up a calendar for the entire bankruptcy process. On August 10 the plan of reorganization was confirmed, and three months later, on November 16, the company emerged from Chapter 11.

"Not one distributor abandoned us," Klemmer says. And since then, results look good: Kroy's operating margins are on target, at about 10% of the company's $36-million revenues.

—*J. A. F.*

### *The Rising Cost of Medical Care*

*Midsize companies did a better job this year than last year of controlling their medical costs, mainly because of a willingness to change the design of their health plans to obtain lower prices. Meanwhile, although the cost of self-insured plans rose this year, it increased less than it had on average in previous years.*



*Source: Survey of 57 companies, with an average of 1,000 employees, conducted by The Alexander Consulting Group, a national firm based in Lyndhurst, N.J.; 1990.*

CASH MANAGEMENT

## *Maximizing Dividends and Deductions*

MANAGING A COMPANY'S working capital to achieve both safety and investment growth can be tricky. Ed Resch, president of $5-million Ohio Pipe, Valves & Fittings Inc., in Cleveland, keeps about half his working capital in a money-market account. Most of the rest is invested in a strategy known as "dividend capture," in which stocks are bought and sold according to elaborate schedules that maximize dividend payouts and tax deductions. "I wanted that money to be working for us

*(Continued on page 142)*

RESOURCES

## *The Rewards of 401(k)s*

**The annual maximum contribution for 401(k)s has been raised by 6.2%, to $8,475—the largest annual increase since 1987. Employers don't pay payroll taxes on their contributions, and employees pay no taxes on deferred income until retirement.**

**Employers who want to learn more about 401(k)s should consider "401(k) Plans—Cash or Deferred Arrangements," a free 13-page booklet from Coopers & Lybrand, ABC, 1800 M St. NW, Washington, DC 20036. Companies with 401(k) plans should consider "Risk Tolerance Quiz," a free 10-question test that helps employees decide how to invest their 401(k) savings, from IDS at (612) 339-6368. —*J. A. F.***

TAX STRATEGIES

## *Taking Control of T&E*

TRAVEL AND ENTERTAINMENT costs are likely targets during any IRS audit. To cure T&E tax troubles, James A. Firestone, executive vice-president at American Express, recommends—

- **Eliminating cash outlays.** Require employees to record on original charge receipts who they're entertaining and why, so you'll have extra documentation when credit-card issuers send you monthly receipt facsimiles.
- **Verifying T&E tax records against quarterly statements.** This should help the company pick up tax-deductible charges employees may have forgotten about, as well as incorrectly filed expense charges.
- **Requiring receipts for all expenses over $10.** Setting a receipt minimum lower than the $25 that is required by the IRS will beef up your company's documentation during tax audits.

—*J.A.F.*

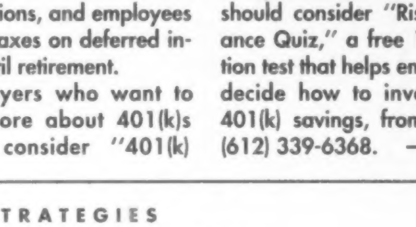


CHART: ROSS CULBERT LAVERLY & RUSSMAN INC., NEW YORK; ILLUSTRATION: HAL MAYFORTH

*(CASH, from page 140)*

now, building up investment income that one day I'll be able to use to help pay for my construction costs," says Resch.

Dividend-capture strategies take advantage of the dividends-received-deduction, which allows a corporation that owns dividend-paying stock in another U.S. corporation for at least 46 calendar days to deduct 70% of every dividend dollar received. "This means that if a corporation with a 34% tax rate owns stock and is taxed only on 30% of its dividend earnings, it will wind up paying about 10¢ in taxes on every investment dollar earned," says Warren D. Nadel, whose Greenvale, N.Y., brokerage house specializes in dividend-capture strategies.

There are different ways to fine-tune a dividend-capture strategy. Nadel minimizes his clients' loss potential by investing in preferred stocks that are typically less volatile than common stocks, and by making use of Treasury Bond futures put options to protect against the effects of interest-rate fluctuations, which could have a negative effect on the value of the portfolio.

This idea of principal protection is appealing. Preferred stocks behave in the investment market much the way bonds do: when interest rates rise, preferred stocks decrease in value, and vice versa. So Nadel designs his hedge—the Treasury Bond futures put options—to become more valuable when preferred stocks become less valuable. In 1990 that strategy worked well: while the average yield on CDs was 5.31% after corporate taxes, Nadel's dividend-capture portfolios averaged 10.3% after taxes.

Some points to consider: Since any dividend-capture strategy is subject to various market fluctuations, companies must be prepared to invest these funds for at least 12 months. And this is a pricey strategy, since many brokers require minimum dividend-capture investments of $500,000 to $1 million.

—*J. A. F.*

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VIDEOS
Inc.
AUDIOS

# IN THE OFFICE

*Susan Bowen cut costs by shaving amenities.*

### COST CUTTING

## *Budgeting for the Recession*

LIKE MANY BUSINESSES, CHAMPION AWARDS INC., A Memphis screen printer, took its growth for granted until the recession struck. The office staff took its amenities for granted, too—until the boss struck. "When you're fat and happy and don't pay attention," chief executive Susan Bowen discovered, "it's amazing what office people spend money on." The company's perks no longer include company perks. "If they want coffee, let *them* buy it," Bowen asserts. Further Champion Awards constraints:

- Memos, photocopies, and computer printouts must now be executed on paper whose flip side has been previously written or printed on.
- An office worker is not allowed to hoard more than a week's worth of supplies. After that decree was issued, enough surplus was returned to last a year.
- Purchase orders must be approved by the CEO, who turns few down, since there simply aren't as many as before. Scrutiny from above, Bowen found, curbs free spending.

Bowen isn't alone in her zealous recessionary reaction. Here's how others have budgeted for the recession:

John Katzman, president of Princeton Review Inc., a test-preparation service, reduced shipping charges by $400 a month after receiving a letter from Federal Express citing his business as one of its favored customers.

After a yearlong slump at LectroMagnetics, a Los Angeles manufacturer of radiation-shielding systems, president Richard Nichols ruled that

*(Continued on next page)*

### SERVICES

## *Movers, Not Shakers*

WHY WOULD A SMALL business seeking to move office computers select a transportation company whose expertise was honed by shuffling satellites for NASA? Because a carrier that can cradle the innards of earth orbiters does equally well with deskbound PCs. So notes Kevin Cornwell, CEO of Three Way Corp., based in Sunnyvale, Calif., the country's foremost specialist in electronic-goods transport. All computers should be moved by experienced hands, he insists. And out of more than self-interest: moving a computer from the air-conditioned atmosphere of an office into the heat of summer (or from office heat to winter temperatures) can easily damage delicate parts.

As office machinery has become increasingly microcircuited, more and more movers have been proffering kid-glove treatment. Vans fitted with air-cushion suspension and temperature- and humidity-controlled interiors cost at least 40% more than the standard variety. But not only does the extra fee (Three Way tacks on 52¢ a mile) guarantee that your computers will light up when they're turned back on, it can save the day should the unexpected occur. What if, for instance, you can't get into your new facilities when the truck arrives? The trailer can be detached from its cab and, tapping its own source of fuel, can be kept operating as needed to protect sensitive equipment.

It may be worthwhile to call in a specialist for even a small computer collection. For example, Three Way's less-than-a-truckload policy (a truckload is 28,000 pounds) lets you move a mere 500 pounds. That adds up to about six desktop computers, a fax, and a copier. Plus a painting of the founder; considerations that pertain to fragile electronics hold also for moving fine art. *—R. A. M.*

### IN THIS SECTION

**BUDGETING FOR THE RECESSION**
*To perk or not to perk*

**MOVERS, NOT SHAKERS**
*How to move the electronic office*

**RESOURCE: BUDGET CONSULTANTS—THE MALCOLM BALDRIGE AWARDS**

**INC. GOES SUPERSTORE SHOPPING**
*How office-supply chains measure up*

**A REALLY PERSONAL PC**
*GO Corp. promises computers in your pocket*

**Edited by**
**Robert A. Mamis**

PHOTOGRAPH: DAVID SMART

*(COST CUTTING, from page 143)*

"nothing is untouchable in this company." Nothing was: he terminated half his 80-employee force. Nichols next slashed two company cars, three company car phones, and four company service-station credit cards. Other hits:

- Charitable contributions, pared "almost to zero."
- The company softball team: no jackets or hats for a year.
- The catered Christmas party changed to potluck.
- Several telephone lines disconnected at a savings of about $150 a month.

Not everyone sliced office comforts this time around. Cleveland's Original Copy Centers Inc. *increased* its employee perks. "If we had allowed the exterior economic environment to affect our internal environment, we would have had to cope with negativity on both fronts," rationalizes president Nancy Vetrone. Fresh perks include

- In-house massages.
- Two treadmills. Why a pair? So employees can build better relationships with coworkers even while exercising.
- A redecorating project. "Redoing surroundings can pick up spirits," Vetrone says. And it can be done economically: enthusiastic employees volunteered to paint their areas after work.

*—Researched by Teri Lammers*

RESOURCE

## Budget Consultants

### THE MALCOLM BALDRIGE AWARDS

**Three of last year's Malcolm Baldrige National Quality Award winners were household names: Cadillac, IBM, and Federal Express. Wallace Co., the fourth, was a little less familiar. Houston-based Wallace had sales of $79 million, spent $1,050 on entry fees, and was chosen over thousands of other small-company entrants for setting new standards for service. "It's the best self-assessment tool," says Wallace executive vice-president Michael Spiess of the rigorous filing routine. "It makes you look at every aspect of your business."**

**This year's 42-page *Application Guidelines* outlines seven broad components of a quality-management system, which are partitioned into 32 subcategories and then divided into 99 specific areas of**

*(Continued on page 146)*

FOR A FREE copy of the *Application Guidelines*, call the National Institute of Standards and Technology at (301) 975-2036. Wallace Co. offers an abbreviated version of its successful application. Call Michael Spiess at (713) 672-5809.

SUPPLIES

## Inc. *Goes Superstore Shopping*

A MERCHANDISING CONCEPT barely five years old, giant office-supply chains are spreading across the country. They've already spawned so many stores, they're now muscling in on one another's turf, each claiming to beat the competition's prices to a pulp.

To determine if that's so and by how much, *Inc.* shopped the catalogs of 10 superstores plus 3 discount mail-order houses, selecting for comparison five identical items. The results are shown in the table below, with stores ranked in order of overall savings on goods. Some observations:

- Savings vary by region. An East Coast purchasing agent could pay 35% more for an item than his or her West Coast counterpart—and at the same chain!
- Delivery charges are quirky. Most retailers boast free or nearly free delivery; a few add freight charges. All three mail-order companies ship mostly for free.
- The suggested list price, which is referred to when items' discounts are promoted, differs considerably from chain to chain. Not that the figure means very much: even a local mom-and-pop is unlikely to charge full list price, if there really is such a thing.

*—R. A. M.*

### HOW THE DISCOUNTERS MEASURE UP

| Retailer/location | Rolodex VIP 500-card tray RLP*: $18.25 | 3-M Post-It 3" x 3" pad RLP: $12.84/12 | Papermate black medium-point Flexgrip pen RLP: $13.08/12 | Texas Instruments calculator with two-color printer RLP: $85.00 | Avery copier labels 2,310 per box RLP: $42.73 | Shopping-basket total | Dollars off RLP of $171.90 | % of RLP (discount) |
|---|---|---|---|---|---|---|---|---|
| Office Club/L.A. | $ 9.49 | $5.69 | $5.19 | $39.99 | $27.99 | $88.35 | $83.55 | 48.6% |
| Office Club/Seattle | 10.99 | 5.59 | 5.19 | 39.99 | 27.99 | 89.75 | 82.15 | 47.8 |
| Staples/L.A. | 10.59 | 5.99 | 5.26 | 39.99 | 29.59 | 91.42 | 80.48 | 46.8 |
| Bizmart/St. Louis, Houston | 9.94 | 6.69 | 6.99 | 44.99 | 30.51 | 99.12 | 72.78 | 42.3 |
| Office Depot/Houston | 10.61 | 5.77 | 7.36 | 45.97 | 30.46 | 100.17 | 71.73 | 41.7 |
| Office Depot/Atlanta | 10.61 | 6.72 | 7.36 | 46.97 | 30.46 | 102.12 | 69.78 | 40.6 |
| Quill (mail order; 708-634-5708) | 11.88 | 6.99 | 6.68 | 49.88 | 27.99 | 103.42 | 68.48 | 39.8 |
| Staples/D.C. | 11.88 | 6.07 | 7.49 | 51.29 | 29.59 | 106.32 | 65.58 | 38.2 |
| Staples/Boston | 11.88 | 6.39 | 7.49 | 53.99 | 29.59 | 109.34 | 62.56 | 36.4 |
| OfficeMax/Milwaukee | 12.64 | 7.29 | 7.96 | 49.82 | 31.99 | 109.70 | 62.20 | 36.2 |
| Arvey Paper/Chicago | 14.49 | 7.08 | 8.52 | 58.99 | 34.18 | 123.26 | 48.64 | 28.3 |
| Reliable (mail order; 800-735-4000) | 14.75 | 9.99 | 9.96 | 59.96 | 38.96 | 133.62 | 38.28 | 22.3 |
| Viking (mail order; 800-421-1222) | 16.07 | 11.67 | 11.16 | 59.99 | 42.58 | 141.47 | 30.43 | 17.7 |

Note: prices taken from catalogs current as of March 1, 1991. ■ * RLP indicates a representative list price.

*—Researched by Susan Greco*

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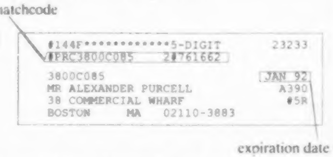

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**MISSING OR DAMAGED MAIL**

We will act promptly to correct any problems in service. Contact the above 800# or write to us and we will replace the missing issue (inventory permitting), or gladly add an issue to your subscription.

*(RESOURCE, from page 144)*

**evaluation. At least five reviewers study an entry and write an appraisal of each company's strengths and shortcomings. Win or lose, the observations constitute bargain consultation. "You get untold hours of professionals looking at your company, and then they send you honest, constructive feedback," Spiess marvels.**

***—Researched by S. G.***

### TECHNOLOGY

## A Really *Personal PC*

SMALL, MOBILE, DISKLESS, and keyboardless computers that you write on with a magnetized pen will be in managerial shirt pockets by the end of 1994, promises developer GO Corp., of Foster City, Calif. Big deal; so will spiral-bound pads that you write on with a lead pencil, promises Eberhard Faber. But here's the difference: the electronic version reads your handwriting and, on command, transforms it into text and/or numbers. Then it processes the data just as any other computer does.

The user writes with a stylus on the face of the computer. Any traditional function—word processing, number crunching, graphics—can be integrated with any other, at any location on the screen. To add words or numbers to a document, you draw a caret and handwrite them in; to erase unwanted material, you simply *X* it out. GO claims a noncursive character-recognition accuracy of 95% to 98%.

The first commercial adaptation will likely measure 8½ inches by 11 inches by 1 inch, and will weigh four pounds. It will cost between $2,500 and $5,000. Robert Carr, a GO cofounder, anticipates it will be available by the end of this year.

Will the pen-based computer catch on as a productivity tool? Most likely, judging from the big players—IBM, Apple Computer, NCR, WordPerfect, Borland International, and Lotus Development, among others—who have already affiliated themselves with GO's platform. *—R. A. M.*

# THE INC. NETWORK

THE INC. NETWORK
800-444-1756
READER-TO-READER ADVICE

**BAD REP**

*Andres Heuberger's company sells novelty watches through independent sales representatives. He offers the reps a 15% commission, but so far, their performance has disappointed him; he's fired 25 in six months (Taking a Licking, March). He wants to know what he's doing wrong.*

Mr. Heuberger is asking his reps to create instant sales, and that's usually impossible. Does he know what it takes to sell his product? What level of performance is a good beginning? Whether his product fits in with the rest of the line? He has to answer those questions with each rep.

It's premature to measure performance by monthly sales volume; instead, he should look at sales calls. If his reps are making calls, sales will follow—if his product has a legitimate market.

Richard Miles
President
Re:Launch
Berkeley, Calif.

Mr. Heuberger can't rely on reps alone. He needs a factory-trained sales manager who can travel with the sales reps, supervise them, train them, motivate them, and sell alongside them. Together, they make an unbeatable combination. But alone, an independent sales rep lacks the incentive and knowledge to make a product happen.

Ben M. Tenn
Executive Vice-President
Best Film & Video
Woodland Hills, Calif.

Most of the sales reps I know wouldn't walk across the street for a 15% commission. With the expense of setting up and the time spent at trade shows, most wouldn't consider anything less than 25%. Forty percent is more like it.

Louis Champeau
President
Vehicle Appraisers
Milford, Conn.

**LAW AND ORDERS**

*Customers love Mark Warda's copyright and trademark manuals. If only he had more customers. The advertising he's tried hasn't worked, and people hear of his books, he says, only by accident. Warda asked Network how he could make accidents happen (Under a Bushel, March).*

Our local patent-information clearinghouse displays ▶

## NEW QUERIES

*Our first letter comes from a reader who recently caught his partner embezzling company funds. The partner is gone now, but the reader's problems are just beginning. He's turned to Network for help in solving them. In Resources: how retirees can reenter the work force, and the benefits they bring to small businesses.*

**PICKING UP THE PIECES**

About a year ago my partner and I started a company that designs and installs electronic security systems. After a few months we incorporated. Recently, I learned that my partner was embezzling company funds. After I tracked him down, I submitted for a new incorporation under my name alone. I had to move quickly to reassure my clients, and I did. But now I've had time to assess more thoroughly what's left of the company, and I'm unsure of my next step. We're missing cash. We're missing inventory. And we're missing several clients who have signed contracts but who don't return my calls.

I need money to get us through the next six months to a year, until the legalities are completed and we're back on our feet. I'm looking for a venture capital partner or a private investor. But I don't know how to structure the deal. What is 15% of my company worth? Should I look for a onetime injection of cash or several small ones? One investor or several?

Name withheld

**DIAMOND MINE**

My company recently obtained marketing rights to supply precision diamond wheels used to cut the extremely hard materials used in the computer, communications, and high-tech ceramics industries. I need to establish a network of salespeople who know about that technology and its applications. Can anyone suggest how I might get in touch with such people? What trade publications should I advertise in to reach them?

Robert K. Nelson
President
Techno International
Minneapolis

**GOVERNMENT ISSUE**

As a government engineer I have invented high-tech devices that might be useful not only to the government but to industry. In accordance with a law passed in 1987, the government is applying for patents for my inventions, but I will retain patent rights for licenses sold to private industry. How do I determine a good price for such a license? The dollar savings a licensee might enjoy will vary from one industry to another. Also, some applications of the product will result in new capabilities for the licensee. How do I put a price on such intangibles?

Gregory C. Hildebrand
Rio Linda, Calif.

**THE TEMPERATURE'S RISING**

My company has obtained marketing rights for a computer-managed fertility monitor. I am wondering how we can market the product to OB/GYN doctors who treat infertility. It costs far more than the thermometers typically used, which are available in drugstores. Would leasing to doctors be an alternative to direct sales?

Earl Fredrickson
President
Western Medical
Technology Transfer
Edina, Minn.

copies of a West Coast publisher's patent and trademark books and recommends them to anyone who calls or visits. Talk about zeroing in on a market! Mr. Warda should contact similar offices in his area and ask them to do the same for him.

Pierce Buxton
President
The Better Ideas Company
San Francisco

I publish a magazine for doll makers, and I'm often asked about copyrighting designs. Mr. Warda should market his books through "The Crafts Report" (302-656-2209), a monthly newsletter for professional crafts people. He should also contact organizations of artists and designers. He could write articles for their newsletters, and he could speak about legal issues at seminars and conferences. Here are the names of a few of those organizations: Society of Craft Designers (404-252-2454); Graphic Artists Guild (212-463-7730); and Network, an association of fiber professionals (212-787-1968).

Gloria Winer
Publisher
*Let's Talk About Dollmaking*
Point Pleasant, N.J.

### IN SEARCH OF . . .

Back in December Leslie Homen asked for advice on selling a poster she's designed, from her home through the mail. Josh Berman suggested she subscribe to "National Home Business Reports," a quarterly newsletter published by Barbara Brabec. We published Berman's reply in March, but we didn't tell readers how to get in touch with Brabec. Here's that information: Barbara Brabec Productions, P.O. Box 2137, Naperville, IL 60567; (708) 717-0488.

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*Please send your words of advice to The* Inc. *Network, 38 Commercial Wharf, Boston, MA 02110, or call our reader response line,* **(800) 444-1756.** *Or, fax your letters to* **(617) 248-8090.** *We'll publish the best responses and queries.*

## RESOURCES

### THE BEST YEARS OF OUR LIVES

In 1985 I retired as director of sales with a housewares company, where I had worked for 20 years. Since then I have done volunteer work and I've loved it, but nothing replaces the excitement of business. I am 76 years old. I want to rejoin the business world—but how?

Kurt A. Baer
Beechhurst, N.Y.

*"Older workers are an important part of the mix; they're more experienced, they've gotten more bloody noses," says Ben Strohecker, chief executive of Harbor Sweets, in Salem, Mass. (See "Managing the New Work Force," January 1990.) He estimates that one-third of his 130 employees are of retirement age or older. "These people are a real resource," he says.*

*Help abounds for retirement-age people who want to work. And there's help, too, for managers like Strohecker who want those people to work for them.*

*Operation ABLE runs several programs tailored to those 40 or older, including the ABLE Institute, which helps place people in professional, managerial, and technical jobs, and for $150 offers a two-day job-search training program. After completing the program, clients may return to ABLE for weekly strategy and individual placement assistance. Similar programs in Chicago, Boston, New York City, Detroit, Little Rock, Los Angeles, and Lincoln, Nebr., receive about 12,000 job orders each year. Write Operation ABLE, 180 N. Wabash Ave., Suite 802, Chicago, IL 60601. Or call (312) 782-3335, or fax (312) 580-0348.*

*Forty Plus is a nonprofit membership organization that serves professionals and managers 40 or older who are changing careers. There are 16 independent offices across the country. The Washington, D.C., organization's program is typical. It charges members a $300 initiation fee and thereafter charges active members $25 each month. Its two-week training course includes instruction in résumé writing and interview techniques. Afterward, Forty Plus becomes the members' office, accessible seven days a week, 24 hours a day. Those who find jobs become lifetime members—and important network contacts for the organization. Forty Plus takes an active role in marketing members to the corporate sector, a service which is free to employers.*

*The American Association of Retired Persons (AARP) sponsors a program similar to Forty Plus's workshops. AARP Works is offered at 70 sites across the country. Programs run several times a year for $35 each.*

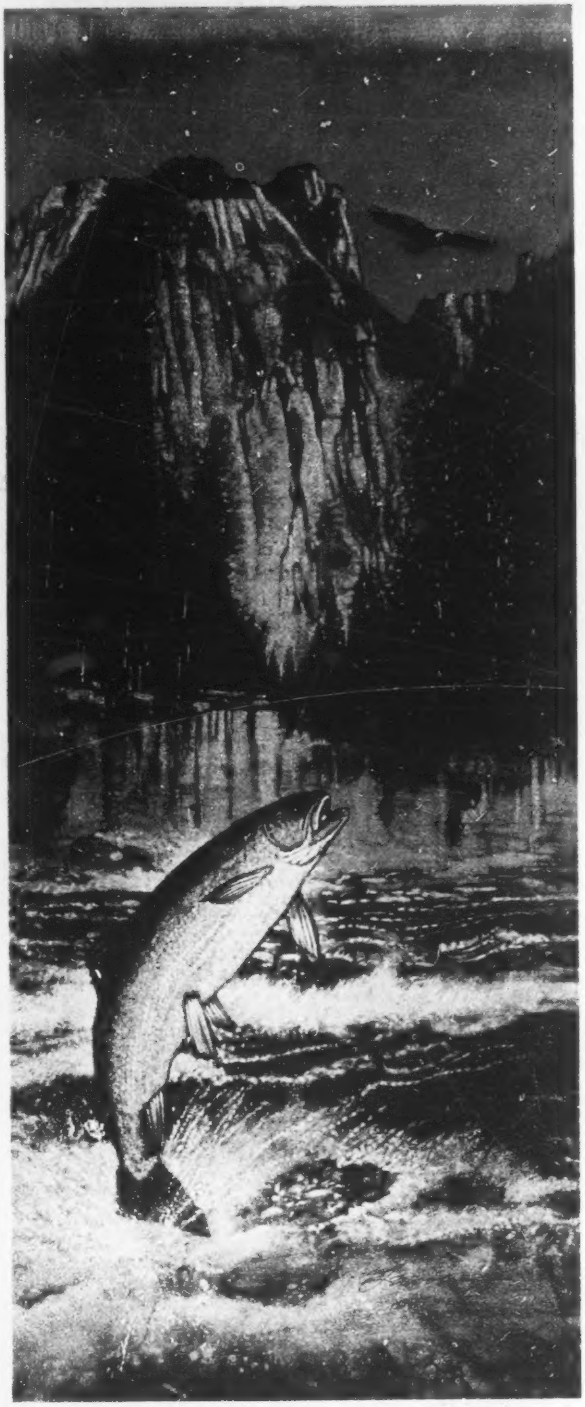
*AARP also offers valuable services to companies that want to set up programs for older workers. For no fee, the National Older Workers Information System will put an interested company in touch with other companies that already have such programs. AARP also offers three free publications to help employers recruit, train, and manage older workers. Write to AARP, Worker Equity Program, 1909 K St. NW, Washington, DC 20049. Or call (202) 662-4958, or fax (202) 775-8373.*

*The Senior Career Planning & Placement Service (SCPPS) accepts résumés from professionals 50 and older, and places them in its database. When a client company requests candidates for a particular position, SCPPS researches its database and recommends a list of people who meet its needs. Write to Senior Career Planning & Placement Service, 257 Park Ave. S., New York, NY 10010-7304. Or call (212) 529-6660, or fax (212) 228-3958.*

*Tom Fitzpatrick, acting director of human resources for Merchandise Mart Properties, in Chicago, has hired six people through Operation ABLE, including his assistant, Muriel Foster. "Muriel has more than 20 years' experience in human resources—more experience than I do," says Fitzpatrick. "She makes everybody look really good."*

***—Michael P. Cronin***

# THE AMERICAN DREAM



### BUSINESS FOR SALE

## IDAHO UP-COUNTRY RANCH

**THE BUSINESS** An operating ranch located in hunting-and-fishing heaven: 105 private Idaho acres at the confluence of the Salmon River and Crooked Creek, surrounded by the biggest U.S. Wilderness Area in the lower 48 states. Guided expeditions (for deer, elk, steelhead) generate 70% of the ranch's revenues; the balance comes from guests who opt for horseback riding, river floating, or relaxing in rustic, cozy cabins. Depending on your activities, rates range from $125 a day to $3,000 for a week of big-game hunting.

### FINANCIAL SUMMARY

| | 1988 | 1989 | 1990 |
|---|---|---|---|
| Revenues | $239,474 | $226 469 | $197,193 |
| Recast pretax profit | $57,946 | $42,256 | $9,848 |

**PRICE** $2.5 million

**OUTLOOK** Idaho's back-country outfitter and guide industry is growing 10% a year, but it's a tough way to make money; insiders say the typical pretax profit margin for these businesses is just 5%. Until last year, this seller had done better than that—hitting nets of 24% in 1988 and 19% in 1989—despite operating the ranch more as a private retreat for his family than as a business. He now claims good fortune has returned. The ranch is booked solid for 1991, and 1992 is already beginning to fill.

**PRICE RATIONALE** Pretty subjective. There aren't many such properties left in America, and for most paying guests the appeal of wild beauty is enhanced by good hunting—the five-year average success rate for hunters here is 80% for deer, 65% for elk. The seller suggests the purchase could constitute a real estate play, too; 70 of the ranch's acres could be subdivided, although it's hard to predict land values because some areas are difficult to access.

**PROS** Your very own private preserve: mountains, meadows, and the unspoiled Salmon, with no roads and no motorized vehicles allowed, and the nearest town 46 miles downriver. A business that, by the seller's own admission, has never been cultivated. Is there real potential?

**CONS** This place is remote—accessible only by light plane or jet boat—and expensive. As the 1990s wax, will big spenders wane? *—Alessandra Bianchi*

***Inc.* has no stake in the sale of the business featured.**

*The magazine cannot confirm the accuracy of financial or other information offered by the seller. Inquiries should be directed to Paul Resnick, 116 N. Robertson Blvd., Suite 603, Los Angeles, CA 90048.*

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ILLUSTRATION: LEE WOOLERY

WHAT YOUR SECOND-IN-COMMAND *REALLY* THINKS C 46 2-1

# Inc.®

THE MAGAZINE FOR GROWING COMPANIES

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COVER PHOTOGRAPH
by DAN BRYANT

IDEAS AND RESOURCES FOR GROWING A BUSINESS

# Hands On

## SALES & MARKETING

*Mike Duffy finds that rolling quotas keep revenues flowing.*

COMPENSATION

### Commissions That Smooth Out Sales

MIKE DUFFY, THE NEW VICE-PRESIDENT OF SALES AT Software 2000 Inc., inherited a common sales manager's problem: too many of the company's sales—fully half, in fact—closed during the company's last fiscal quarter.

Annual sales were growing nicely for the privately held computer-software developer based in Hyannis, Mass. Sales rose from $20 million in 1988 to $28.6 million in 1990. But lumping most of the sales into the final quarter—and a good part of *those* into the final month—caused a hardship for the rest of the company. With every sale came a demand to service the new customer. "We couldn't keep up with the growth spike at the end of the year," says Software 2000 president Doug MacIntyre.

The spike was only partially a function of customer demand. It was also a consequence of the company's sales-commission structure. Like a lot of companies that rely on a field sales force, MacIntyre motivated his people by raising their commission rates on sales exceeding quota—the more a salesperson sold in a year, the higher the commission rate on that year's sales. So the incentive was to close as many sales as possible before the end of *(Continued on next page)*

RESOURCE

### Are 900 Numbers for You?

**You know that if the government wants to regulate 900, or pay-per-call, phone services, they must be good. The possible uses—ranging from software companies using 900 numbers to bill for customer service, to direct-mail merchants using them to qualify leads—continue to grow. If you want to learn more about how your business can benefit from 900 numbers, call (900) 463-6839 for a 13-minute message that costs $9.95 and gives you a quick history of the interactive telephone industry. It also automatically puts you on the subscriber list for *InfoText* magazine—which is free—to keep you current on the latest applications, industry trends, upcoming conferences, and books. —Teri Lammers**

SALES PROSPECTS

### A Good Name Is Hard to Find

LOOKING TO CONTACT the *real* decision makers at companies? So are reporters who cover your industry. And when they find them, they usually quote them. You can compile a strong list of qualified buyers simply by reading.

Margaret Rodenberg, vice-president of sales and marketing for $7-million Viteq Corp., a Lanham, Md., maker of uninterruptible power supplies for computers, does just that. She goes through the same business publications her potential customers read, culling names as she goes. "It's one way to build up your list," she says. And when she contacts the prospect, she has a natural icebreaker: "I read your remarks in the latest issue of . . ." —*T. R.*

**IN THIS SECTION**

COMMISSIONS THAT SMOOTH OUT SALES
*How to motivate your sales force with monthly rolling quotas*

RESOURCE: ARE 900 NUMBERS FOR YOU?

A GOOD NAME IS HARD TO FIND
*Buyers are as close as your trade magazines*

TRAINING CUSTOMERS TO BUY
*How to use a seminar to increase sales*

CAUSE-RELATED MARKETING
*Link your product with a cause to develop loyal customers*

**Edited by
Tom Richman**

PHOTOGRAPH: MARK ALCAREZ

*(COMPENSATION, from page 69)*

the year, while the salesperson could still earn the highest commission rate.

To change their sales reps' behavior—and to smooth out the company's sales and production load—Duffy and MacIntyre revised the commission structure.

Now the commission-rate multiplier changes monthly in proportion to the rep's performance—total actual divided by total quota—over the previous six months. That means that the sales rep's performance *this* month will affect *future* commission rates, but the current month's rate is strictly a function of past performance.

The purpose of this "rolling quota" compensation plan is to keep sales at or above quota *every* month. The result is a smoother, more predictable revenue flow and the ability to better predict the need for customer-support services.

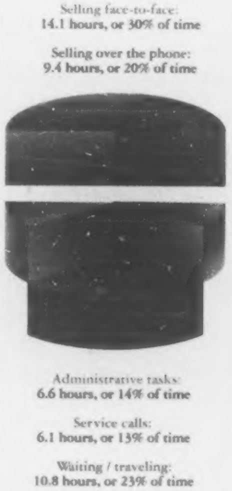
Why a *six*-month rolling quota? According to Atlanta consultant Warren Culpepper, who helped Software 2000 design its new system, the length of the period depends in part on the length of the company's typical sales cycle. If closing a sale normally takes 90 days, you want the period of your rolling quota to be longer than that. Ideally, says Culpepper, you want the period to cover enough sales to provide some consistency over time. But if you make the rolling-quota period too long, salespeople will find it difficult to affect their commission-rate multipliers in a reasonable length of time.

When kicking off a rolling-quota plan, you must start everyone out with an assumed past performance. Start with numbers somewhat lower than you actually expect. If your real monthly quota is, say, $100,000, and you're going to calculate your average over six months as Software 2000 does, you might assume each rep met an $85,000 quota in each of the previous six months. That way, in the early months of the new system salespeople have only to hit their quotas to kick their commission rates up a little. They'll come to like the new plan sooner.

The most common error people make in designing plans like this, says Culpepper, is to include the current month in the rolling average. Don't do it. That allows a sales rep to affect the rate paid on *this* month's sales—precisely what you're trying to avoid. —*T. R.*

*How Salespeople Spend Their Time*

*Breakdown of an average 47-hour workweek*



*Source: "Twenty-sixth Survey of Sales Force Compensation," a survey of U.S. companies, nearly three-quarters of which had sales less than $50 million. The Dartnell Corp., Chicago, 1990.*

*Lynda Milligan hooks new quilters with seminars.*

### SEMINARS

## *Training Customers to Buy*

THERE ARE 103—WE'VE counted them—reasons to hold customer-training seminars: visibility, prestige, and market feedback pop to mind. But they all come down to just one reason: sales. For lots of growing companies, seminars turn out to be a cost-effective way of spending limited marketing dollars.

For instance, The Great American Quilt Factory Inc., a $1.2-million single-store Denver wholesaler and retailer of quilting materials and literature, holds seminars primarily to expand its market—by hooking new quilters and teaching vets new techniques.

Rockford Corp., a $51-million Tempe, Ariz., company that produces high-performance audio components, holds seminars to train the middlemen—the retail salespeople and installers—who influence retail consumers' choices.

Both programs have been successful in boosting sales, in part because they adhere to some basic guidelines for running effective seminars:

- **Define your costs and benefits.** What do you expect to get out of a seminar program? Great American looks to cover only its out-of-pocket expenses with seminar fees. Rockford's seminars are run purely at the company's expense and are budgeted at about 1% of sales. But Ronald Trout, Rockford's vice-president of product development, considers that a bargain: "Just the stuff I learn in class about my competitors makes it worthwhile."
- **Gear your seminars to those who really influence your industry.** While its deep-pocketed competitors, such as Kenwood and Pioneer, spend money on consumer advertising that brings would-be buyers into the stores, Rockford concentrates on winning over retailers. "It's the dealer who largely determines what customers buy," says Trout. So the Rockford Technical Training Institute (RTTI) seminar program seeks to win dealer loyalty by teaching salespeo-

*(Continued on page 72)*

CHART: ROSS CULBERT LAVERLY & RUSSMAN INC., NEW YORK; PHOTOGRAPH: STEPHEN COLLECTOR

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*(SEMINARS, from page 70)*

ple how to design car-audio systems, and shop people how to install them.

- **Make sure the right people attend.** Asking attendees to pay is a good way of guaranteeing interest and commitment. But if there's no fee, impose some other condition of attendance. To attend a Rockford seminar, for instance, you have to be recommended by one of the company's sales reps.
- **Demand attendees' undivided attention.** Don't allow business matters to interrupt. When Rockford initiated its seminars, in 1986, it didn't have the prestige that would allow it to make a no-interruption policy stick when it held seminars in customers' plants. So Rockford decided to bring customers to Tempe for training, where interruptions would be less of an issue.
- **Make it challenging.** Once the seminar is under way, make demands on attendees' concentration and stamina. Great American will sometimes hold all-night quilting seminars—6 p.m. until 6 a.m. "They're rough, but they're fun," says Lynda Milligan, Great American's co-owner, "and you can establish a rapport that doesn't come in a two-hour class."

*—T. R.*

PUBLIC RELATIONS

## *Cause-related Marketing*

DONATING YOUR PRODUCT OR service to charity events can be an inexpensive, effective way to get it sampled by the public. But if you're looking for more than a sales spike from one-shot giveaways, why not link your marketing strategy with that of a compatible nonprofit organization? You can develop a loyal customer base using long-term but very affordable campaigns.

Here's the anatomy of one alliance that cost very little but has paid big dividends to both parties.

**The company:** Razcal Corp., of Wayland, Mass., with about $2 million in sales. Founded in 1988, Razcal makes and sells a raspberry-lime soda for the teen market.

**The marketing challenge:** Razcal needed to be more clearly and positively identified with and by its target market.

**The cause:** Mothers Against Drunk Driving (MADD). Not only does MADD target teens, it also addresses the issue of beverage consumption. It reaches teens within the school setting, providing Razcal with a captive audience in an environment free from the advertising clutter of competitors.

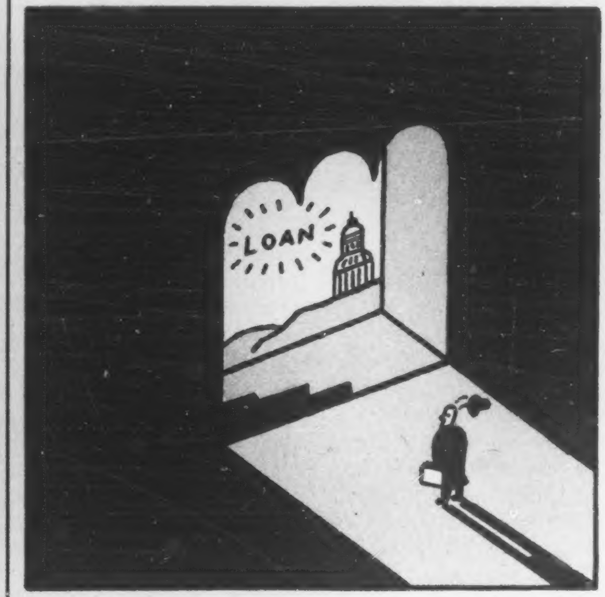
**The alliance:** For years MADD had tried to get schools to participate in a poster contest with an antidrinking theme, but few schools signed up. Razcal offered to pay for and execute a slick direct-mail campaign for the poster contest, which went to 4,000 high schools in New England. Three thousand students representing about 500 schools participated in the contest. Razcal provided prizes for the winners, as well as music and plenty of soda for sock hops at which the winners were paid tribute.

**The cost:** The mailers to school principals cost Razcal $4 each. Kits for holding poster contests and sock hops cost Razcal about $100 each. That paid for T-shirts, sweatshirts, hats, and other prizes for the winners, as well as drink cups, promotional posters, and raffle tickets for more Razcal, given away as prizes. About 100,000 cans of soda were given away. Total cost to Razcal (excluding soda): $25,000.

**The payback:** Razcal sales doubled from 250,000 cases in 1989 to 500,000 in 1990. Razcal's presence was felt in schools from January to March, thanks to the poster contest. In areas where schools joined the campaign, sales doubled and even tripled for the entire year. In addition, supermarkets waived slotting fees and even provided point-of-purchase displays to ally themselves with the MADD-Razcal antidrinking effort.

*—T. L.*

# BANKING & CAPITAL



**LOANS**

## *A Little Help from the Government*

IN RECENT YEARS MORE AND MORE STATE AND local governments have created programs to help finance growing businesses. You would think they'd want you to know about them, but don't count on it: often the information is hard to come by and even bankers are in the dark.

So how do you sniff out the sources that one expert calls "secret scholarships for business"? The best advice we have is to set aside some time and plan to do lots of legwork. Below is an annotated list of some of the types of financing that may be available in your area, and some tips on how to find them:

**Loans.** Depending on where you are and what you need money for, you may be eligible for a loan from a revolving loan fund. More than 30 states have such funds to support the working-capital and fixed-asset requirements of businesses that are expanding in targeted communities or hiring low-skill workers. Other revolving funds are sometimes sponsored by nonprofit groups. Loans from revolving loan funds are usually granted at favorable rates and terms, and those loans may make it easier for a bank to come in with more money as a senior lender.

Even if there are no locally sponsored sources, there may still be loan funds that are capitalized by grants from the Economic Development Administration (EDA), an arm of the U.S. Department of Commerce, or from the Department of Housing and Urban Development (HUD). Typically, such funds are managed by local government, nonprofit development

*(Continued on next page)*

**RESOURCE**

## *Picking the Best Loan*

ANYONE WHO'S EVER tried to sort out competing borrowing options knows how confusing it can be. Fortunately, there are software programs to help. One of the most versatile is Cashflow Planner.

Cashflow Planner allows you to move freely through planning and budgeting exercises based on your company's historical and forecasted data. Once you've plugged in numbers, you have total flexibility to play "what-if" games. You can make changes on your income statement, for example, and watch the ripple effect on your balance sheet. The program can help you anticipate funding gaps and can assist you in identifying the best ways to fill them.

Cashflow Planner's loan-comparison module lets you compare four loan options at once. You enter information about the amount each bank will lend, the interest rate, and the term. Then you score each loan on a scale of one to five on nine other criteria—fees, collateral demands, approval time, and so forth. In seconds the program tells you whether a loan meets your standards, rating loans from "excellent" to "unsatisfactory."

CASHFLOW PLANNER
CASHFLOW PLANNER
CASHFLOW PLANNER

And what about your chances of *getting* the loan? Based on information you've entered, including business data and lending criteria from banks, the program calculates 23 standard ratios (using built-in formulas) and spits out report cards in English.

Because Cashflow Planner is a stand-alone program, what you see is what you get; in its current form, you can't introduce new ratios, for instance, or even calculate the effect of a balloon payment.

Cashflow Planner costs $285 and is available from PMG Cashflow, in Bellevue, Wash., at (800) 242-3380. A tutorial is available for $5. ***—B. G. P.***

### IN THIS SECTION

**A LITTLE HELP FROM THE GOVERNMENT**
*Locating hard-to-find government financing*

**RESOURCE: PICKING THE BEST LOAN**

**SPOT FACTORING**
*Accounts receivable borrowing when you need it*

**LIQUID ASSET TEST**
*How would you convert your assets into cash?*

**Edited by**
**Bruce G. Posner**

ILLUSTRATION: MARIS BISHOFS

RECEIVABLES

## *Spot Factoring*

CONGRATULATIONS. You've just delivered a major order to a customer. Trouble is, until that customer pays you, you're broke. Your banker won't lend you another dime, and suppliers have cut you off until you pay *them.* So what do you do now?

You could cool your heels until the money comes. But before you resort to that, look into spot factoring.

Spot factoring, like ordinary factoring, is a surefire way to turn your receivables into cash. Normally, you might have to wait 30 days or more for invoices to be paid; factors, who look at your customers' credit (not yours), can pay you the bulk of what's owed within a couple of days. You'll receive the balance, less administrative costs and fees, after the customer pays. Most factors want companies to sign contracts promising them a certain amount of business over time, but spot factors operate differently. Assuming they like the credit of your customer, and the transaction itself checks out, they'll buy a receivable whenever a business needs to sell one.

Because of the financial risk inherent in what they do, spot factors invest a lot of time up front, verifying that customers indeed have the ability to pay. Once the ability to pay has been established, spot factors do intensive inquiries into the transaction itself, confirming that the goods were received or the service performed; that the customer got what was ordered and that the quality was acceptable; and that the customer intends to pay the invoice. Typically, spot factors advance 60% to 80% of the value of an invoice within a couple of days of a commitment. How much you'll see of the rest depends on how swiftly your customers pay up. Some players, such as Access Capital, in New York City, price their services in 10-day increments; others, such as Concord Growth Corp., in Palo Alto, Calif., use 15-day periods. Assuming an invoice is paid in 30 days, ex-

*(Continued on page 76)*

### ONETIME LENDERS

| Source | Minimum deal | Typical advance | Typical fees |
|---|---|---|---|
| Access Capital<br>(800) 421-0034 | None | 70%–80% | 3%–5%<br>for 30 days |
| Allstate Financial<br>(703) 931-2274 | $10,000 | 70%–80% | 4%–8%<br>for 30 days |
| Concord Growth<br>(800) 229-9000 | $10,000 | 50%–80% | 2%<br>for 15 days |
| Riviera Finance<br>(800) 421-1327 | None | 75%–95% | 5.5%<br>for 30 days |

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(*LOANS, from page 73*)

corporations, or rural-planning districts. To get the ball rolling, call your city or state economic development office.

**Loan guarantees.** The advantage of a loan guarantee is that it can prod a bank to lend more money and to provide it for a longer period, often at a lower interest rate. Beyond the well-known guarantee program of the Small Business Administration, it's worthwhile to investigate other sources. HUD, for example, has a loan-guarantee program that operates through cities and towns (using Community Development Block Grant funds). Several states, among them California, Maine, and Mississippi, have guarantee programs of their own. For information about loan guarantees, call your SBA regional office and ask for names of certified and preferred lenders. To check out other possibilities, call the local HUD office, your state economic development agency, or (if your state has one) the state financing authority.

**Interest subsidies.** If you had a choice between a loan at 11% and an otherwise identical one at 9.5%, which would you choose? Depending on where you-are, below-market-rate money may not be a pipe dream. Several states, including Ohio, Iowa, and Oklahoma, have interest-rate subsidy or "linked-deposit" programs, which permit qualifying small businesses to get favorable loans from local banks.

In Oklahoma, for instance, participating banks can qualify for low-cost funds from the state, provided they agree to pass along the savings to customers; to qualify, companies must have revenues of less than $4 million and employ fewer than 200 people. To find out about such programs in your area, contact the state economic development agency. You might also get in touch with local business groups such as the chamber of commerce, or nonprofit development corporations in your community.

*—B. G. P.*

### *Plastic Capital*

*A few years back filmmaker Robert Townsend made the rounds on the talk-show circuit, explaining how he bankrolled his first film,* Hollywood Shuffle, *by maxing out his credit cards. A number of CEOs we know claim to have at least partially financed their ventures the same way. For those of you contemplating a dive into the deep end of the capital pool, here's a sampling of the best terms you can expect:*

| **Best Gold-Card Deals** | *Card offered/ annual fee* | *Interest rate on cash advances* | *Credit line* | *Late/ over-limit fee* |
|---|---|---|---|---|
| **BayBank, Dedham, Mass.<br>(800) 221-3300** | V, MC / $45 | **11.5% *** | $5,000<br>and up | $0 / $5 |
| **First Tennessee Bank, Memphis<br>(800) 234-2840** | V / $35 | **13% *** | $5,000<br>and up | Greater of $3 or 5% of<br>min. payment / $10 |
| **Bank of Hawaii, Honolulu<br>(800) 543-6611** | V / $45 | **13.21% *** | $5,000–<br>$100,000 | 5% of min. payment /<br>$5 max. |
| **Amalgamated Bank, Chicago<br>(800) 366-0404** | MC / $0 | **13.8% *** | $5,000<br>and up | $0 / $0 |
| **First Virginia Bank, Falls Church, Va.<br>(800) 634-6663** | V / $36 | **13.5% *** | $5,000–<br>$10,000 | 5% of min. payment due /<br>$12 if over 10% of credit limit |
| **USAA Credit Card Bank, Salt Lake City<br>(800) 922-9092** | MC / $20 | **13.75% *** | $5,000–<br>$25,000 | $0 / $0 |
| **Ohio Savings Bank, Cleveland<br>(800) 356-1445** | V, MC / $45 | **14.75%** | $5,000 | $15 / $15 |

**Variable   Source: "Gold/Credit Card List," Bankcard Holders of America, Herndon, Va., September 1990; [illegible]*

*Note: Minimum household income requirements range from $30,000 to $40,000 for all cards.*

CHART: ROSS CULBERT LAVERLY & RUSSMAN INC., NEW YORK

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THE MAGAZINE FOR GROWING COMPANIES

*(RECEIVABLES, from page 74)*

pect to pay anywhere from 4% to 7% of the value of the invoice in fees.

Clearly, this can be a pricey way to finance a business. Is it worth it? That depends on your other options and how thick your margins are. If you're not going to make money on the cash you get, chances are, you're better off waiting for those checks. ***—B. G. P.***

**PLANNING**

## *Liquid Asset Test*

ON THE THEORY THAT there's no such thing as being too prepared for a meeting with a jaded banker, we bring you a timely and thought-provoking exercise from Bob Bowman, president of Plains-Bank of Illinois, a $160-million-asset bank in Des Plaines, Ill.

Like any prudent banker, Bowman, who spent six years as a bank examiner, wants to be assured that the loans he makes are loans, not equity investments. So in the course of getting to know prospective borrowers, he poses a rather unsettling question: if they had to convert their business assets into cash right away, how would they do it?

Bowman encourages would-be borrowers to take him through their business, asset by asset. In the case of inventory, he wants to hear what each type is worth—and who, specifically, might be willing to pay that price. He asks the same about equipment and receivables, and he inquires about customer relationships.

The point of this quiz, Bowman notes, isn't to make people squirm. It's to gain insight into the workings of individual businesses, how the executives think about their businesses, and how the loan might be structured. "Obviously, we want our borrowers to believe in what they're doing, and we want them to succeed," he says. "But if they're going to borrow, they have to show us what happens if things *don't* work out. We want to know how they'd pay us back." ***—B. G. P.***

# MANAGING PEOPLE

*Watson found North Dakota workers had the drive he needed.*

### WORK FORCE

## *Workers Far Afield*

CHANCES ARE, YOUR COMPANY IS WHERE IT IS because that's where you first got the idea for your business. Or it's where your first customers were. Those were actually good reasons at the time, but they may not be now. You may now be too distant from your enlarged customer base or too far from suppliers. Worse yet, you may be constrained by a local shortage of skilled or affordable workers.

Solution: relocate part of your business. Most business owners assume that strategy makes sense only for big companies with large labor forces. But small companies can benefit enormously, too, particularly as technology has made it easier to tie far-flung offices together. Philadelphia Macaroni, a family-owned pasta maker with two plants in Pennsylvania and more than $10 million in sales, is locating a plant in North Dakota to be near its suppliers and high-quality labor. Total employees at the new plant: 17.

Many regions of the country will bend over backward to attract small businesses. In addition to establishing an economic development arm, many industry-starved areas are willing to lure a business with tax breaks, subsidies, or loans. As a result of such inducements, lower labor costs,

*(Continued on next page)*

### INCENTIVES

## *The Element of Surprise*

DAVE WIEGAND, PRESIDENT of Advanced Network Design Inc. (AND), a La Mirada, Calif., telecommunications company, used to get employees to do what he wanted by using an old standby—incentives. AND had weekly, monthly, and quarterly awards workers could earn. The carrots worked but with a hitch. "We'd start a program to motivate a certain behavior," he recalls. "When we stopped a program, we'd lose that behavior."

So in 1988 Wiegand started a new award system: no system. Now his employees don't know who will get bonuses or what they will be. "Out of the blue we'll call a meeting and reward somebody for outstanding performance," says Wiegand, who gave 15 awards worth some $9,000 at two meetings last year.

The size of the reward depends on the profitability of the activity being rewarded. Last year Wiegand gave a five-day family vacation to Disney World to one executive because his department's sales had exceeded expectations by 70%; a $75 clock radio to an unusually dependable receptionist; and a $375 suit to a manager (with pearl jewelry for his wife) who had increased his department's revenues 40% in four months.

Intermittent reinforcement, says Wiegand, is far more effective than defined bonus plans. Under the new system AND's sales force has shrunk from 12 to 4 while productivity has increased. Where the top salespeople had generated $110,000 in annual new revenues, the two top saleswomen brought in $638,000 and $520,000 in new revenues last year. Plus, the company isn't locked into the fixed cost of a traditional incentive program. ***—E. E. S.***

### RESOURCES

## *Help in Relocating*

**If you're considering relocating in a different region of the country, contact the American Economic Development Council, in Rosemont, Ill. (708-692-9944), for information. If you want to screen a number of regions quickly to find out which have a special appetite for your industry, DataChase, in Chicago (800-852-0258 or 312-853-0071), will do the research for you for an hourly fee. *—E. E. S.***

## IN THIS SECTION

**WORKERS FAR AFIELD**
*Consider relocating part of your business*

**RESOURCES: HELP IN RELOCATING**

**THE ELEMENT OF SURPRISE**
*To make incentives work, offer them out of the blue*

**EMPLOYEE-INITIATED REVIEWS**
*For more honest feedback, give appraisals on demand*

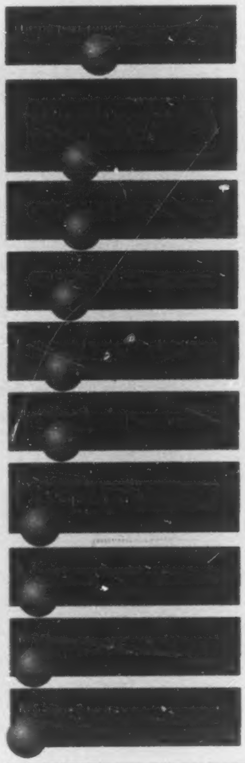
**DEPARTMENT OF LABOR CALLING**
*Are your salaries in order?*

**Edited by Ellyn E. Spragins**

PHOTOGRAPH: JACKIE LORENTZ

### *Solutions to Employee Shortages*

*While some companies are recruiting out of state, others are simply moving their facilities to relieve employee shortages. Here are the roads taken by some corporations:*



*Source: Responses to a nationwide poll conducted by Grotta, Glassman & Hoffman, of Roseland, N.J. At least one-third of the respondents had fewer than 200 employees in 1990.*

*(WORKERS, from page 79)*

and higher productivity, businesses can save a bundle.

Consider New Flyer Industries Ltd., a Canadian maker of city buses. In 1987 it set up a finishing plant in Union City, Calif., near Oakland, to be close to a major customer. The plant was never as productive as the company had hoped, and as New Flyer's customers increased, it became a less convenient spot to ship from.

After a thorough search, New Flyer decided to close its California finishing operation and open a new plant in Grand Forks, N. Dak., a two-and-a-half-hour car ride from the company's headquarters, in Manitoba. The Grand Forks Development Corp. spent $221,000 to upgrade a 42,000-square-foot building for New Flyer. It put in air-conditioning, offices, rest rooms, lighting, lunchrooms, and oversized doors. The rent: $7,000 a month, compared with $23,000 a month in California.

The wage costs, of course, are cheaper, too. A handful of the 54 plant employees are paid $9.50 to $10 an hour, and most are paid just under $8 an hour. In California the average hourly wage was $12 to $13. That isn't the most significant difference, though, says plant manager Ross Watson. In California the workers tended to have high school educations, at most. "The people were 7:30 to 4:00 people. If the job didn't get done, they didn't worry about it. The drive just wasn't there," he says.

In contrast, the Grand Forks plant benefits from a number of university-educated workers. Says Watson: "Here it's the complete opposite. People just pick up tasks and do them on their own."

Guy Johnson, New Flyer's president, counts that attitude as one of the most important benefits gained by the relocation. He estimates that the new plant, which completed 350 buses in its first year, is 25% more productive than the California plant was. *—E. E. S.*

MEASURING PERFORMANCE

## *Employee-Initiated Reviews*

"MILLIONS OF PEOPLE who run companies know they should be conducting annual employee appraisals, but they're not doing it," asserts Roger Flax, president of Motivational Systems, a West Orange, N.J., management- and sales-training company. "There's a lot of assuming that in small companies people are motivated, so there's not a lot of formal motivating," he says.

One answer may be the employee-initiated appraisal, in which employees are told they can ask for a review from their manager. The on-demand appraisal isn't meant to replace a conventional semiannual review, but it promotes an attitude of self-management among workers and often makes critiques more honest. Edward Silverman, president of SOS Security Inc., a Parsippany, N.J., security-guard company with $25 million in sales, says the employee-initiated appraisal "encourages an open-door policy" at his company.

▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼

**Flax suggests employees ask for as many reviews as they feel they need. Here are the seven questions he instructs employees to ask in their self-initiated appraisals:**

1. **Can you rate my performance from one to 10?**
2. **What do you feel are the strongest elements of my work?**
3. **What are the weakest elements?**
4. **Why didn't I get a 10 (highest rating)?**
5. **Where do you think I can go in my job or career in the next 18 months to four years?**
6. **What skills, training, or education do I need to get to that point?**
7. **What specifically can we agree on that I can do, beginning tomorrow?**

**—E. E. S.**

LEGAL BRIEFS

## *Department of Labor Calling*

THE IRS ISN'T THE ONLY uninvited guest that could show up on your company's doorstep. The Department of Labor does investigations, too. Its Wage and Hour Division conducts some 60,000 investigations each year, looking for minimum wage, overtime, immigration, and child-labor violations.

One of the easiest places to err is in how you classify employees regarding their eligibility for overtime pay. "Many smaller employers have the misconception that if you pay employees a salary, you don't have to pay them overtime," says Janet E. Goldberg, a partner in the labor and employment law group at Sachnoff & Weaver, in Chicago.

The key is knowing which employees are exempt from overtime pay. The federal government and most state governments

CHART: ROSS CULBERT LAVERLY & RUSSMAN INC., NEW YORK

set a limit of 40 hours a week. Some states require overtime pay after 8 hours a day. While most of the exemption tests, or criteria, are clear enough, others are less so. Below are the three classifications of exempt employees that are fuzziest. In each case, employees in these categories must make more than $250 a week. Those making less—but more than $155 a week—must qualify for the more exacting "long form" exemption.

- **Professionals.** Their primary duty is the performance of work that requires advanced knowledge, including the consistent exercise of discretion. An accountant, for example, uses judgment in deciding whether to expense or capitalize a cost, whereas a bookkeeper may merely adhere to established practices.
- **Administrative employees.** Their primary duty is office or nonmanual work directly related to management policies or to general business operations, and it must include the regular exercise of judgment. Take the tricky case of executive secretaries. Some exercise discretion in ordering furniture, setting up conferences, choosing vendors, and other activities, and are thereby exempt. But other executive secretaries are trusted confidantes who type and are privy to highly confidential information. They would not be exempt because they do not use judgment in their jobs.
- **Executives.** Their primary duty is the management of the enterprise or a portion of the enterprise requiring the regular exercise of discretion and supervision of the work of two or more other employees.

If you have misclassified an employee, the penalties are not as severe as those levied by the IRS, but they can add up. The Department of Labor may ask you to start paying overtime to the employee and ante up with the back pay that you owe him or her. It pays to do as the department asks. Though less than 10% of violations go to litigation, the Department of Labor wins almost all that do. *—E.E.S.*

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WHISKEY

# FINANCIAL STRATEGIES

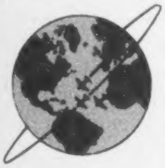
*Each foreign deal requires different coverage, says Walsh.*

INTERNATIONAL BUSINESS

## *Covering Foreign Business Risks*

COMPANIES INVOLVED IN OVERSEAS VENTURES too often overlook insurance costs and considerations until after deals are signed or sales are made. That can be an expensive oversight, since policies that protect against foreign product-liability lawsuits, international-transport damage, or even kidnapping and ransom may prove pricey enough to wipe out profit margins.

What's more, U.S. businesses with foreign interests must coordinate insurance coverage with other countries' laws. "Some countries not only require you to buy certain kinds of policies from local insurers but also deny your company the right to do business there if you're caught with coverage from a nonadmitted carrier," warns Marnix Guillaume, president of Corroon & Black International, a New York City–based insurance-brokerage firm.



**For tips on foreign insurance, see page 84**

Unfortunately, there's no universal method for determining what your company will need for foreign insurance. "We probably ship to 20 or 30 countries over the course of a year," says Michael Walsh, executive vice-president of Recreonics Corp., an Indianapolis manufacturer of swimming pools and aquatic equipment. "But there's nothing resembling a catch-all insurance approach."

Walsh recommends doing due diligence on every *(Continued on next page)*

COMPENSATION

## *Performance Unit Plans*

PERFORMANCE UNIT plans (PUPs) make good sense for small businesses. Unlike year-end bonuses, PUPs tie financial rewards to long-term, individual achievements, yet they don't entail prolonged financial obligations the way many phantom-stock or profit-sharing plans do. Here's how they work:

1. A company's owner (or benefits specialist) selects the goal that makes sense for each executive. For example, a sales manager's target might be increased revenues, whereas a quality-control officer's might be reduced product rejects.

2. Owners attach to the goal specific numbers, which generally take the form of targeted percentages of change. Those percentages usually are stretched out over a three- to five-year horizon.

3. Then a PUP document is drawn up. In it, the executive is given a number of performance units, which have no value when they are issued. A clause states that if the executive achieves his or her PUP goals over a defined period, each unit will increase in value to the point where it can be redeemed for its new value, in effect as a cash reward.

"Growth-oriented companies can set executives' goals really high but then include a prorated reward structure so that managers who don't quite make it won't get burned out and leave," says Adam Gaslowitz, an Atlanta lawyer who has helped small companies design PUPs. Companies can also keep setting up new PUP plans for key executives, with revised goals that make sense for the company in its latest growth phase. So if executives are always in the midst of earning new performance units—which they know they'll lose if they resign before the PUP matures—there's a real inducement to stay with the business. *—J. A. F.*

**IN THIS SECTION**

COVERING FOREIGN BUSINESS RISKS
*Navigating the international insurance market*

PERFORMANCE UNIT PLANS
*Financial rewards based on individual goals*

RESOURCES: WEATHERING THE RECESSION

GUARANTEED INVESTMENT CONTRACTS
*A safe, interest-sensitive option*

USING BOARD MINUTES AS AUDIT PROTECTION
*How to document tax-related decisions*

**Edited by Jill Andresky Fraser**

PHOTOGRAPH: GREG WHITAKER

*(INTERNATIONAL BUSINESS, from page 83)*

foreign deal. "I'd talk to my corporate attorney to find out what kinds of risks I'm incurring on every type of contractual obligation," he says. Then I'd talk to my domestic insurance broker to see what I'm already protected against. Then I'd talk to my advisers in whatever country I'm doing business in, to analyze local laws and customs."

Since Recreonics' overseas deals run the gamut from importing and exporting to joint manufacturing ventures, its foreign insurance coverage resembles a patchwork quilt, with each deal's coverage custom-tailored to fit its particular needs. "If we're shipping overseas, I'm concerned with the perils of transportation, but those are normally covered as part of our freight transportation package," explains Walsh. "But if I'm importing goods to the United States that are made by a foreign manufacturer according to his specifications, then I have the additional concern of product-liability coverage. I'll insure the shipping risks but insist that he have his own liability policy to cover the U.S. market. And I insist on seeing a copy of the policy."

As prepared as Walsh is, there are plenty of unexpected risks for him to beware of. "We often see entrepreneurs who get a great idea for a business venture, fly overseas, and come back with a signed contract and a big new market," says Guillaume. "But if the deal was arranged by someone who lied on his customs visa—by saying that he was traveling overseas for pleasure, not business—the government of the other country can deny the validity of the contract, and an insurance company can later refuse to honor any claims." *—J. A. F.*

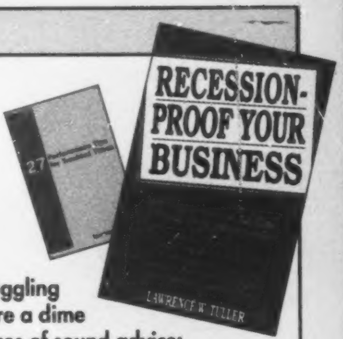
* * *

Below, some inside tips from Guillaume for U.S. companies navigating the international insurance market:

| **Type of international venture** | **Insurance issue** |
|---|---|
| Importer | Can eliminate the need for transport insurance by arranging to assume ownership of the imported goods at the U.S. port of transit. |
| Exporter | Can skip transport insurance as above but must buy "foreign-products coverage" to protect against overseas product-liability lawsuits. |
| U.S. parent with overseas plant or distribution network | Depending upon each country's laws and political climate, may need property coverage, workers' compensation (different policies for U.S. and foreign workers), auto liability, foreign liability, or other coverage. In Latin America or the Middle East, may need kidnap and ransom coverage. |
| Joint venture with overseas partner | Must buy foreign insurance only if they're majority partners, but minority owners should request copies of all insurance documents to protect against lawsuit risks if the venture proves underinsured. |

RESOURCES

## *Weathering the Recession*



**Quack cures for companies struggling through economic downturns are a dime a dozen, but here are two sources of sound advice:**

**• *Recession-Proof Your Business*, by Lawrence W. Tuller (Bob Adams Inc., 617-767-8100, 251 pages, $9.95), aims to teach companies "how to boost cash flow and make it through tough times with ease." Best of all, the book manages to provide simple-to-follow financial advice that is anything but simplistic.**

**• "Twenty-seven Performance Tips for Troubled Times" (BusinessVISION, 714-855-6060, free) is 8 pages of practical tips, such as "develop a 'control panel' of real-time performance indicators" that can be scanned daily. —J. A. F.**

INVESTMENTS

## *Guaranteed Investment Contracts*

COMPANIES THAT HAVE 401(k)s or other types of long-term qualified savings accounts may want to consider guaranteed investment contracts (GICs), an investment strategy that offers safety as well as the opportunity to profit from interest-rate increases.

GICs work something like certificates of deposit, except they're sold by insurance companies. "Companies pay money in return for a contract that promises them the return of their principal plus an investment yield, at whatever point the GIC matures," explains Bill Wolff, a vice-president at The New England, a Boston-based insurer. GICs bought for 401(k)s usually permit deposits to be timed throughout the purchase year to coincide with employees' deferred-income plans.

Companies can choose between two types of GICs: participating or nonparticipating. The first variety offers investors a variable rate of return—thus, they *participate* in the risks and rewards resulting from interest-rate fluctuations. Nonparticipating GICs earn fixed rates of return. GICs' are typically higher than CDs' by a percentage point or so at the time of purchase. "In a market where interest rates are high, it may make sense to buy a nonparticipating GIC and lock in that high return," says Wolff. "But today, when it's a good bet that interest rates will eventually rise, it may make better sense to go with a participating GIC instead."

At Bommer Industries Inc., a 200-employee manufacturer of builders' hardware, management is so sold on participating GICs that it has decided to invest all funds accumulated in the company's nine-year-old thrift plan in them. "We're very conscious of our fiduciary responsibility in managing our employees' long-term savings, so we like the safety feature," says Charles

*(Continued on page 86)*

**Q:** I want to reach growing companies, but my business is limited geographically. How can Inc. help?

I'd like to test my product in a few target markets before taking it national. What do I do?

My product sells best in the Northeast and Southwest. How do I avoid waste?

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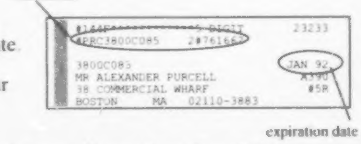

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**FINANCIAL STRATEGIES**

*(INVESTMENTS, from page 84)* Martin, Bommer's vice-president for finance.

One caveat: unlike CDs, GICs are backed by the financial health of your insurer, not by the federal government. Since GIC funds are typically placed in relatively volatile investments like mortgages and private placements, it makes sense to verify the insurer's financial health with A. M. Best, Standard & Poor's, or Moody's before finalizing any contract. *—J. A. F.*

**TAX STRATEGIES**

# *Using Board Minutes as Audit Protection*

WHY RISK EXPOSING YOUR company to penalties in a tax audit? At Physical Acoustics Corp., in Lawrenceville, N.J., chief financial officer John Heenan uses the company's board minutes to provide documentation on all significant tax-related decisions.

- **Document important discussions, as well as votes, as they happen.** "You can't go back and try to impute motivation to prior board decisions with any degree of success," warns Heenan. "But if we can show why we made a decision, the tax authorities can't accuse us of just trying to dodge taxes, after the fact, once we've seen that we've had a particularly good year."
- **Refer to long-term corporate policies when board minutes relate to important tax decisions.** "It helps to show that we were conscious of corporate precedents," Heenan explains, "even if we were also considering our tax benefits."
- **Be especially scrupulous on matters with high audit potential.** "With some decisions, like bonuses, there's always the risk of the IRS coming in and saying, 'How do we know you didn't just make the decision once the year ended and you saw you had some leftover cash?' It's cleaner with both the IRS and your key executives if you can point to minutes as proof of the year's guidelines." *—J. A. F.*

# IN THE OFFICE

*Negotiate early for better terms, advises Marisa Manley.*

SAVING COSTS

## Learn to Walk from Leases

WHEN IT COMES TIME to negotiate floor space, businesses can carve out more favorable lease terms than most realize, claims Marisa Manley, a Manhattan real estate consultant and broker. A powerful tool for leveraging a landlord is the phrase *I'm walking,* she says.

To gain meaningful ends, the prospective lessee must come to the bargaining table with enough gumption to get up and go—literally. Most, however, are unprepared to take a session-ending stroll, Manley observes. Here are four exercises designed to strengthen a business's lease-leveraging muscle:

**1. The early jump.** Time is essential for leverage. Getting good terms out of even a modest-size transaction can take a year. Yet, observes Manley, it's not until a few months before his or her company's lease is to expire that the typical president starts to act. By then the pressure's on: if negotiations can't be completed before the lease runs out, the tenant faces having to pay for extra rent periods, as well as meeting other provisions of the expired lease, which might entail stiff penalties.

**2. The fallback position.** Tenants tend to be too set on where they want to settle. Only when you have a true alternative, Manley counsels, do you have the confidence to walk. Therefore, shop for a lease at a second site. Even if you don't take the space, the experience provides valuable grounding in the *real* market—the give-and-take of how deals are closing in the trenches, not merely how they're offered on paper.

**3. The landlord pull.** Determine what's motivating the lessor. Knowing the landlord's financial situation—when the mortgage comes due, how big it is, if there are other fixed obligations, if there is a set of limited partners to satisfy every month—can be a marked advantage.

**4. The thrust and parry.** Search out something the landlord values that you don't, then raise it to the level of a walking point. Example: sublease rights. While many tenants consider them good insurance and possible profit centers, others would just as soon not be bothered with managing space they're not occupying themselves. The landlord, however, does not have to be told which side you favor. Negotiate as hard as you can for something you *don't* want, and when the deal stalls, offer to switch the demand if the landlord will enhance something else. To name a few possibilities: lower rent, material provisions such as curtains and carpets, low-cost overtime air-conditioning, better expansion guarantees, even up-front cash.

*—R. A. M.*

RESOURCE

## Speak Up

**Don't underestimate the value of a good speaking voice. Customers often form their first—and maybe last—impression of a company within seconds after listening to the receptionist on the telephone. Yet few companies pay more than lip service to training the vocal cords of their operators.**

**If you want sound advice, consider a book that customer service professionals recommend: *Change Your Voice, Change Your Life* (Harper & Row, $8.95). Author Morton Cooper offers helpful tips and exercises to get rid of, for example, a whiny or nasal tone, and to create a memorable "voice image." To order the book, call (800) 638-3030.**

***—Susan Greco***

### IN THIS SECTION

**LEARN TO WALK FROM LEASES**
*Strategies for cutting the rent*

**RESOURCE: SPEAK UP**

**BARE IS BETTER**
*Forget pretentious, give me functional*

**SAFE VDTS**
*Are VDTs hazardous? A shopping list of safe products*

**INC. SPILLS THE BEANS ON COFFEE SERVICES**
*A survey of what's brewing*

**Edited by Robert A. Mamis**

PHOTOGRAPH: LARRY FORD

### OFFICE DESIGN

## *Bare Is Better*

TO THE UNSUSPECTING VISITOR, THE UNPRETENTIOUS interior of Cabletron Systems bespeaks niggardliness at best, the verge of collapse at worst. As cofounders S. Robert Levine and Craig R. Benson see it, however, keeping the inside of the Rochester, N.H., headquarters sparse not only saves money but constitutes an effective sales strategy—once it's justified to inevitably stunned first-time callers.

Salespeople explain that disdaining office niceties—chief operating officer and treasurer Benson greets customers as he sits on a tattered chair behind a dented, fake-woodgrain-topped desk—enables Cabletron to price its line of computer-networking products as much as 20% below the competition. Whoever doubts that so deep a disparity can be achieved in large part simply by skimping on decor doesn't appreciate Cabletron management's relentless application of the theory. In the company's new 126,000-square-foot quarters, Benson forged office space out of portable partitions that had been junked by a nearby concern, bridging gaps by taping strips of shipping cartons over them. "OK, so the cardboard doesn't match the walls," says Benson with a shrug. "The *walls* don't match the walls, either."

Still, Benson calculates that for every dollar Cabletron "spends" on its offices, a comparable company likely spends six, much of it on nonproductive indulgences such as marble floors. To what effect, however? "Some customers would prefer a lavish environment because it looks as though you're successful," Benson concedes. "But once they understand our philosophy, they like the simple setting a lot better."

On the other hand, doesn't a decidedly *less* lavish environment make even a $181-million company with a five-year growth rate of 1,780% look more as if it were sliding down the chute? No, answers Benson. Aside from its makeshift offices, he says, "visitors see signs of a prosperous, energetic company. Don't forget: they've just come in from a parking lot filled to overflowing." *—R. A. M.*

▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼

**TIPS FROM A TIGHTWAD**

- **Shop at sales of commercial leasers. Invariably, they retire desks, chairs, and the like before their useful lives have expired.**
- **Before a move to a new facility, get acquainted with neighboring businesses. One might be about to redecorate and need to get rid of still-usable furnishings. You might even get them delivered for free.**
- **Convince your staff that how offices look isn't what counts. "I've never seen an engineer or a salesperson become more productive in a more expensive office," Craig Benson insists.**
- **Occupy lower-priced real estate to start with. Square-footage in the sticks has less expected of its interior than space on Park Avenue.**
- **Fix up at least one area amid the squalor—a conference room, say—in fancy style to show you can do it.**
- **Don't take a lavish office for yourself.**

### HEALTH

## *Safe VDTs*

EXPERTS HAVE BEEN weighing the possibility for some 15 years now, but there's still no consensus that electromagnetic emissions generated by a computer's video display terminal (VDT) are hazardous to human health. Not only are scientists at odds, so are bureaucrats: the government of Sweden has endorsed radiation standards that monitors ought to meet, but no federal agency in the United States has promulgated even a soupçon of a suggestion.

A commercially silver lining in this cloud of discord is that anxiety fosters industry. Described below are some products that have come to market in response to VDT-emissions fears:

*The Professional Very Low Frequency Gauss Meter* and *The Professional Extremely Low Frequency Gauss Meter.* Hand-held devices that, in tandem, measure the strength of VLF and equally insidious ELF radiation, and hence establish a relatively prudent distance from the source of those fields. Safe Computing, $145 each; (800) 222-3003.

*PageView 15-inch monitor.* Ultralow-emission monochrome VDT said to conform, via a special shield, to Sweden's most recent recommendations. Sigma Designs, $1,299; (415) 770-0100.

*Eyesaver products.* A line of nylon, glass, and stainless-steel sheaths that, when fitted over a monitor's screen and/or housing, decrease electromagnetic-field strength. Soft/View Computer Products, $69 for the Eyesaver Plus; (212) 529-2074.

*The 8515 monitor.* First IBM VDT to comply with Swedish standards. In 1989 IBM announced that all its VDTs would meet those standards by January 1992. IBM, $950; (800) IBM-9292.

*The Safe Monitor.* A 10-inch liquid-crystal-display (LCD) monitor that uses patented circuitry and exotic metals; Safe Comput-

PHOTO ILLUSTRATION: MICHAEL LLEWELLYN

ing claims it is the only monitor in the world that generates no radiation whatsoever. Safe Computing; black-and-white monitor costs $795 to $1,795; color, $2,400.

Currents of Death, *by Paul Brodeur.* The seminal opus on the subject, describing the health menace of computer terminals, among too many other man-made perils to contemplate. Simon & Schuster, $11.95; (800) 223-2348.

*Radiation-free alarm clock.* A battery-operated timepiece that illuminates the irony that the average plug-in LCD alarm clock emits more radiation than the average VDT—inches from the unwary sleeper's head, at that. About $30.

*—R. A. M.*

OFFICE PERKS

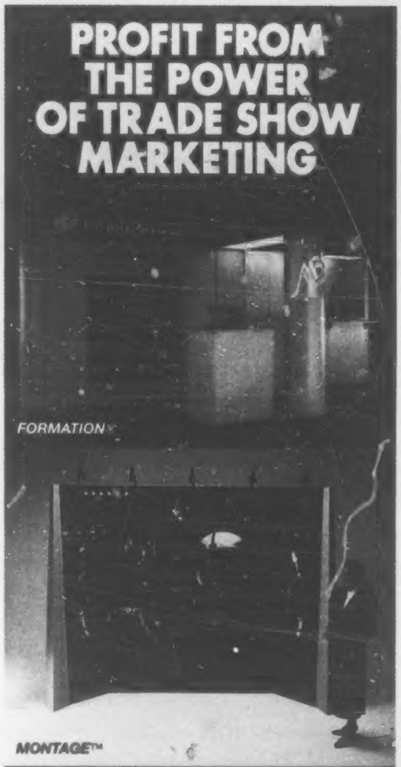
## Inc. *Spills the Beans on Coffee Services*

WHEN WE QUERIED A NUMBER of modest-size businesses to determine how they answered employees' bottomless demands for office-sponsored coffee, solutions ranged from installing a machine that custom-brews a cup in a few seconds to dispensing a secretary to the doughnut shop for a few minutes. Of even wider range were the number and types of services, from international corporations to ad hoc locals. Of widest variation was the per-cup cost of the elixir itself.

Eight ounces of office brew can be bought for as little as 3¢ to as much as 15¢, if not more. That's a gap worth exploiting: the mere hint that someone's shopping around, we found, can trigger a bidding war.

<table>
<tr><th>COMPANY</th><th>VENDOR</th><th>POTENTIAL # OF DRINKERS</th><th>COST/8 OZ.</th></tr>
<tr><td><b>ABC Supply</b>, Beloit, Wis.;<br>regional building-material distributor</td><td>Sunrise Coffee Service, Beloit, Wis.;<br>local supplier</td><td>35</td><td>6¢</td></tr>
<tr><td colspan="4"><b>THE SCOOP:</b> ABC used to handle its own coffee, but now, with 35 employees working at corporate headquarters, it has turned to professionals to manage its single coffee maker. ABC still keeps an eye on the budget: it purchases no allied products. Sunrise projects average corporate monthly coffee consumption for a company ABC's size to be about 700 8-ounce cups. ABC is right on target.</td></tr>
<tr><td><b>Cash America</b>, Fort Worth;<br>pawn-shop chain</td><td>Neighbors Coffee Service, Dallas;<br>part of a regional chain</td><td>100</td><td>5.5¢</td></tr>
<tr><td colspan="4"><b>THE SCOOP:</b> At $116 million in sales, Cash America employs a full-time kitchen manager, partly to wrestle with the intricacies of coffee service, partly to bake cookies to go along with it. For a case of 42 1.5-ounce bags with built-in filters, Neighbors Coffee charges Cash America about $20 for each of its 18 monthly cases of regular coffee and about $24 per case for the decaf. Nondairy creamers go for 2¢ each; a packet of sugar, 1¢; a paper cup with handle, 4¢.</td></tr>
<tr><td><b>PSS</b>, Jacksonville, Fla.;<br>medical-supply distributor</td><td><b>ARA</b> Cory, Jacksonville, Fla.;<br>branch of national company</td><td>20</td><td>5¢</td></tr>
<tr><td colspan="4"><b>THE SCOOP:</b> A lone coffee maker in the company lunchroom dispenses twice as much regular as decaf—pretty much the universal office drinking ratio. A case of regular, a Colombian roast, costs $26 and yields 504 8-ounce cups; a case of decaf costs $24. Vendor-supplied sugar costs about 2¢ per teaspoon.</td></tr>
<tr><td><b>Reference Software International</b>,<br>San Francisco; software publisher</td><td>Uncommon Grounds Gourmet Coffee Inc.,<br>Berkeley, Calif.; local supplier</td><td>60</td><td>12¢</td></tr>
<tr><td colspan="4"><b>THE SCOOP:</b> The company goes through up to four pounds of coffee a week, a bit below vendor's projection that 60 employees ought to use six to seven pounds a week. The laid-back rate can be accounted for, says the company, by Californians' taste for herbal tea. Reference pampers coffee devotees by paying $5.85 to $6.35 a pound for its vendor's best.</td></tr>
<tr><td><b>Thinking Machines</b>, Cambridge, Mass.;<br>computer-hardware developer</td><td>Filterfresh, Wilmington, Mass.;<br>franchisee</td><td>430</td><td>15¢</td></tr>
<tr><td colspan="4"><b>THE SCOOP:</b> Filterfresh uses a proprietary coffee maker that, on individual command, forces aerated water through a single measure of grounds, preparing a customized cup in 10 to 15 seconds. The plumbed-in apparatus dispenses about 200 cups of regular plus 100 cups of decaf before reloading. Employees don't waste time waiting for the next pot.</td></tr>
<tr><td><b>Tracks to Adventure Caravan Co.</b>,<br>El Paso; recreational vehicle tours</td><td>a nearby military commissary or the<br>supermarket</td><td>3</td><td>3¢</td></tr>
<tr><td colspan="4"><b>THE SCOOP:</b> One household-type coffee maker is loaded with communally funded off-the-shelf coffee at $4.99 per 39-ounce tin. The brewer produces two pots a day. Last one to leave turns it off, or there's hell to pay in the morning.</td></tr>
</table>

*—Researched by Susan Greco and Chris Caggiano*



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## NEW QUERIES

**This month we heard from a newspaper start-up, a pest-control company, and a relocated business, asking about everything from writing a business plan to selling the company. And in Resources, experts advise a reader on winning respect for his home-based auto-parts business.**

### FIT TO PRINT?

I'm trying to write a business plan for an industry newspaper, *Flea Market Weekly.* The one book I found on setting up a newspaper was published in 1981 by a bunch of Harvard students. I need something a little more timely and applicable. Does anyone know where I can find sample business plans for newspaper- or magazine-publishing companies? And since I'm writing this to get financing, should I seek capital within the industry, from venture capitalists, or from Mom and Dad?

Jatika Manigault
President
Onyx Publication Co.
Atlanta

### PESTY PROBLEM

My company provides termite and pest control, landscaping, and lawn maintenance. I'd like to start bidding on local, state, and federal contracts, but I don't know where to begin. Where do I find out about jobs coming up for bid? Do the different levels of government and the various offices collect bids separately? There have to be some pointers out there.

Jim Mouyassar
President
Two Nice Guys
Environmental Services Inc.
St. Louis

### GETTING TO KNOW YOU

I recently relocated my business from Philadelphia to Minneapolis. The company succeeded in Philadelphia because we knew our potential clients in that market and could judge their financial health, and we avoided bad debt. As I expand my client base in a new city, I want to know if I can run credit checks on prospects without paying an up-front subscription fee to a service. I can't justify that expense if I'll need to check on only one or two companies each month.

Mary M. Koppel
Koppel & Co.
Minneapolis

### LOAN FINDER

I am selling my business, and the prospective buyer is looking into low-interest loans for minorities. Can Network readers suggest any sources?

Name withheld by request
Monrovia, Calif.

### TO MARKET, TO MARKET

**After selling his handmade leather goods out of his shop for a year, Paul Mardikian wants to work out a retailing deal with a chain of specialty stores. How should he structure the deal (Leather Case, April)?**

We recently worked with two clients with situations similar to Mardikian's. Neither went the route he's contemplating. One started off selling at fairs to build name recognition and to test the market. He reinvested his earnings until he could afford to open his own shop. The other tried to crack a market dominated by two large manufacturers with exclusive distribution rights to almost all the major outlets. So she sought out alternative retail outlets, including independent specialty stores, and has assembled a distribution network of 15 retailers and a mail-order department.

Andrew M. Spell
George Mason University
Small Business
Development Center
Fairfax, Va.

### RABBI TRUST

**Since he founded it, in 1983, Lon B. Williams's contracting and cabinetry business has grown steadily, and he thinks it could grow more, but banks have been uncooperative. He wondered why (The Cupboard Is Bare, March).**

I also own a small woodworking-manufacturing company, and a number of years ago I faced the same problem. Contracting has a high failure rate, so I found it hard to win a bank's trust. After taking my portfolio and financial information to numerous banks and walking away with nothing, I ended up going to the bank with my rabbi, who happens to know the bank president. I was able to get the line of credit I needed to build the business, and since then we've grown substantially. Williams should also look for city, state, or federal financing. But finally, it's who you know.

Gary Pietruszka
President
Woodworking by Degree
Los Angeles

### SALISBURY'S STAKE

**David E. Salisbury wants information on taking his own company public (Do It Yourself, April). Readers replied with resource suggestions and some firsthand experience.**

Ellyn E. Spragins chronicled one company's experience managing its own initial public offering in her October 1990 Capital column, "Who Needs Wall Street?" About 20 states have recently made available a simplified procedure for public offerings of less than $1 million; information is available from state securities administrators. Also, my book, *Take Your Company Public!* has just been published by the New York Institute of Finance.

Drew Field
President
Capital Formation Ltd.
San Francisco

Our company handled its own IPO several years ago.

In 1966 my partners and I hired a CPA firm to set up a suggested stock plan, and a legal firm to prepare the necessary documents. We rented a meeting room at the local inn and sent out invitations to prospective investors. About 50 showed up, and 8 invested. We made oral presentations, and I fielded technical questions. Our offering comprised 90% preferred stock redeemable at 10% interest within four years. The total cost of our initial offering: $3,250.

Gustav Berle
Silver Spring, Md.

### FOREIGN EXPERIENCE

**Patricia Galea started teaching English in Europe as a way to pay for her trips there, and she struck a gold mine. She wants to expand her services, and she wants to go legit but wonders if the French government will let her (Going Legit Overseas, April).**

Almost two years ago I quit a high-paying Silicon Valley job and packed my bags for Germany, and I can offer Galea three suggestions. First, she could find a company willing to hire her and to sponsor her application for a work permit. Once she has that, getting a residence permit should be a piece of cake. Second, she could become self-employed. She will need connections, references, and promised contracts, and she'll have to prove her expertise in the field she's entering. The industry and trade commission in the area where she plans to settle can be a valuable resource. Third, she could incorporate in France. This is similar to self-employment, but the corporation takes over liabilities, and setup costs are higher. Taxes are higher, too, and incorporation requires a capital investment that remains in the bank to cover liabilities. Unless Galea plans to hire several employees, I see no need for her to incorporate.

Stephen Maris
PowerFood Inc.
Munich, Germany

*Please send your words of advice to The* Inc. *Network, 38 Commercial Wharf, Boston, MA 02110, or call our reader response line,* **(800) 444-1756.** *Or fax your letters to* **(617) 248-8090.** *We'll publish the best responses and queries.*

## RESOURCES

### PARTS IS PARTS

I sell parts for classic cars. Customers are enthusiastic about my business until they hear I run it out of my home. They expect a showroom or a big shop, and when they don't find one, the bubble bursts. How have other people overcome the stigma of a home-based business? Should I let customers know in my advertising and other business dealings?

John Vukovich Jr.
President
Classic Car Ranch
Newport News, Va.

**"Market-research firms say that as many as 45 million people work out of their homes today, and that number is growing," says Barbara Brabec, author of *Homemade Money* (Brabec Publications, 708-717-0488). "But this problem persists. It will take time to educate the consumer about the benefits of home-based businesses." In the meantime, people working out of their homes must strike a balance, veiling that fact from the skeptical and publicizing it to the open-minded. In her book, which Network readers brought to our attention (Homework, March), Brabec emphasizes a professional image—a slick brochure, an appropriate telephone manner, a post-office box if your address might give you away.**

**Julie Lewis knows about striking the balance. "If you think working from your home is a problem, it becomes one," Lewis, president of Northwest Quality Innovations, says. "You communicate your embarrassment. Instead, communicate your pride. Toot your own horn, no pun intended." But timing is everything. Lewis has worked out of her home in Lake Oswego, Ore., for more than eight years now. While developing the Deja-Shoe, a walking shoe made of recycled materials (see "New Businesses," April), she worked with executives from such big businesses as Nike and Amoco Fabrics & Fibers, people who might have scoffed at her domestic operation. "I didn't let them know how small my company was until they got to know me. By then, it wasn't a problem." In fact, some people were impressed; Nike cofounder Bill Bowerman started from a garage himself. Nevertheless, Lewis's rule is, "Don't confess that you're a home business at the beginning."**

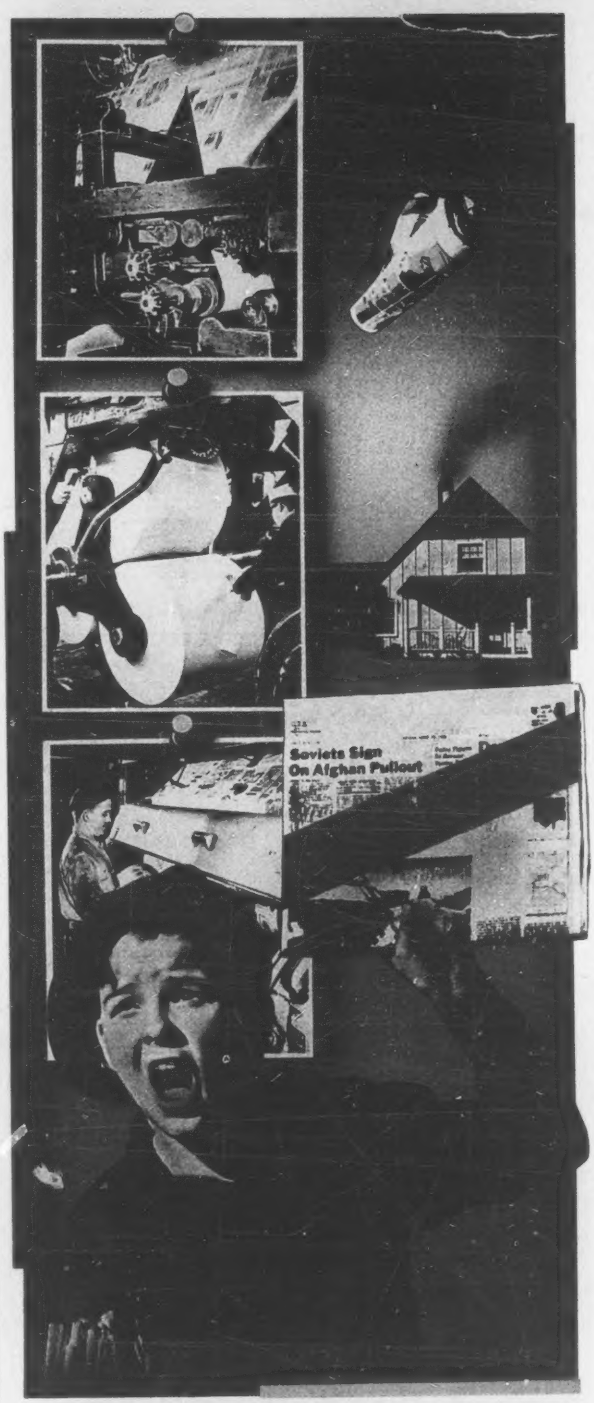
**Jim Wangers, president of Automotive Marketing Consultants Inc., in Warren, Mich., would play it even safer. "He's right not to advertise that he's home-based," he says. "Automotive restorers get involved with parts you don't often think of—headlight bezels, windshield-wiper arms. Those parts are extremely important to them. And they expect someone in the parts business to run a sophisticated showroom, nicely cataloged and inventoried. There are a lot of fake parts brought into the market, and there's nothing more mortifying to restorers than to find out they've bought a fake door handle. A big shop reassures them."**

**But, Wangers says, "restorers look everywhere for parts. And when they find a particularly hard-to-find part, there's no question they're going to buy it; it's just a matter of trusting the source." Wangers believes you can establish the necessary trust through well-worded advertising that demonstrates your knowledge, broad resources, and honesty.**

**David Brownell, editor of *Hemmings Motor News*, the bible of vintage-auto collectors, agrees. "In our classified ads, you'll find guys from Maine to California selling out of their homes," he says. "Some sophisticated shops have recently entered the market, but there are still plenty of guys who buy out odd job lots of leftover Buick shock absorbers, haul them home, and sell them through magazines like ours."**

***—Michael P. Cronin***

# THE AMERICAN DREAM



## BUSINESS FOR SALE

## SMALL-TOWN WEEKLY

**THE BUSINESS** A 125-year-old weekly newspaper located in a historic, rapidly growing rural community (population 3,500) in a Great Lakes state. A white-collar crowd continues to flock to the region covered by the paper (population 50,000), which is within an hour's drive of a major metropolis. Paid circulation of the 24-page weekly is approximately 5,700; a weekly advertising supplement is distributed free to another 15,500. Ads generate 90% of revenues.

**FINANCIAL SUMMARY**

| | 1988 | 1989 | 1990* |
|---|---|---|---|
| Gross revenues | $502,000 | $582,000 | $620,000 |
| Pretax profit | $82,000 | $113,000 | $120,000 |

*estimated

**PRICE** $950,000

**OUTLOOK** Pretty favorable: there are no direct competitors in this paper's town. As a group, community weeklies have been the fastest-growing segment of all newspapers. This paper's region has so far proved recession-resistant: unemployment continues to decrease; population, the price of homes, and the number of new businesses continue to increase. The paper's nearly 20% profit margins are excellent, says one insider who notes that margins can range from 8% to 18% for suburban weeklies.

**PRICE RATIONALE** The price includes assets necessary to assemble—but not print—a paper; a five-year renewable building lease; and two dozen or so dedicated employees who presumably will remain. Newspapers are idiosyncratic and difficult to evaluate, but some analysts say that one to one-and-a-half times gross is the right ballpark, so the price for this paper is a little high.

**PROS** The paper has doubled its revenues in the past five years without raising subscription rates. There's an opportunity for a new owner to continue with advertising supplements *and* raise subscription rates, which are cheap (roughly half the industry standard).

**CONS** Deadlines, angry letters to the editor, and a readership that might not embrace change (the current owner has been at the helm for three decades). Given that the price is no bargain, a new owner will need to be good with numbers as well as words. —*Alessandra Bianchi*

***Inc.* has no stake in the sale of the business featured.**
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ILLUSTRATION: CARL WESLEY

CAN YOU BEAT THIS: ONE COMPANY'S SOLUTION TO HEALTH-INSURANCE COSTS

# Inc.

THE MAGAZINE FOR GROWING COMPANIES

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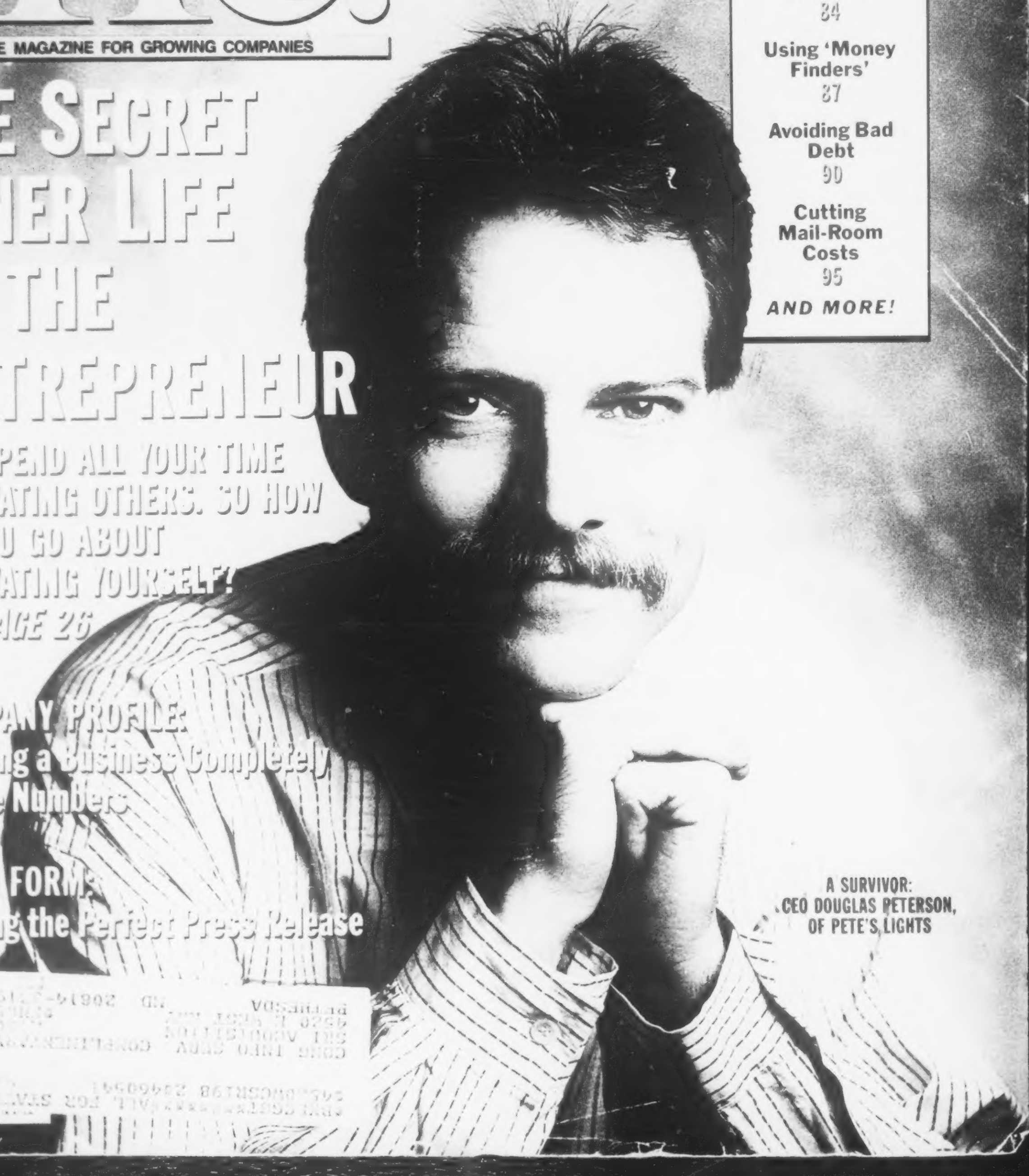
***AND MORE!***

## THE SECRET INNER LIFE OF THE ENTREPRENEUR

YOU SPEND ALL YOUR TIME MOTIVATING OTHERS. SO HOW DO YOU GO ABOUT MOTIVATING YOURSELF?

*SEE PAGE 26*



A SURVIVOR:
CEO DOUGLAS PETERSON,
OF PETE'S LIGHTS

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by JAMES SCHNEPF

IDEAS AND RESOURCES FOR GROWING A BUSINESS

# Hands On

## SALES & MARKETING

A Day At The Beach
The Backyard Show

*Leach & Parker presold kids to save Barney from the Ice Age.*

**DISTRIBUTION**

### Selling Your Customer's Customer

FIRST-TIME ENTREPRENEURS MIGHT FANTASIZE that their fabulous new products will be the ones to jump right off the store shelves. But wholesalers, distributors, and retailers have heard it all before. The reality is that lots of people stand between you and your customer, and they all have to be sold. The entrepreneur's job, as Sheryl Leach and Kathy Parker of The Lyons Group, in Dallas, now know, is to figure out who those intermediate customers are and how to sell them.

Leach and Parker created Barney, a purple dinosaur who cavorts with a pack of real kids in a half-hour song-filled video aimed at the preschool set. A couple of years ago, the team had assumed Barney's fortune was made after they had persuaded Toys "R" Us to put "Barney and the Backyard Gang" videos on their shelves for a market test in New York and New Jersey. "It was a dismal failure," says Leach.

Barney bombed back then because no matter how cute the reptile seemed to its creators, kids didn't know about him, so the distribution network didn't care. If Barney was going anywhere, The Lyons Group had to create demand. And Parker and Leach had to

*(Continued on next page)*

**PROSPECTING**

### Using Others to Sell Your Products

LACKING THE CASH TO build a full-fledged sales organization to blanket the country? Consider cultivating contacts in complementary industries who, for a finder's fee, can open doors for your salespeople.

Laser Vision Centers, a $1.2-million provider of laser equipment and medical-marketing services in St. Louis, used just such a "bird-dog network" to extend its selling efforts. "We became a national company quicker than we would have otherwise," says Jack Klobnak, CEO of the 10-person company. He has used the referral system since 1987.

Independent sales reps of related products mention Laser Vision's name to their physician clients and get them to block out time to meet with a full-time Laser Vision salesperson. If that leads to a sale, the contact gets a finder's fee equal to 10% of Laser Vision's fee for services—less than what a full-time rep would get but enough to make it worth the effort.

"These fellows are in the neighborhood and know the people we want to sell to," says Klobnak, who estimates that his bird-dog network generates 20% to 25% of Laser Vision's leads. "If we get the opportunity to make the pitch," he adds, "we make the sale about 40% of the time."

Klobnak found his eight or so scouts at trade shows and conventions. The approach has given him a risk-free way to try out potential reps. He plans to make five of them formal sales reps with their own exclusive territories. —***Susan Greco***

**IN THIS SECTION**

**SELLING YOUR CUSTOMER'S CUSTOMER**
*How a dinosaur, once nearly extinct, created a market*

**USING OTHERS TO SELL YOUR PRODUCTS**
*Industry contacts can open doors*

**RESOURCE: DO-IT-YOURSELF SURVEY SOFTWARE**

**GET IN THE DOOR ONE STEP AT A TIME**
*Little chunks of business add up*

**TRAINING ON THE TRAIN**
*How to win over a captive audience*

**Edited by**
**Tom Richman**

PHOTOGRAPH: DAN BRYANT

*(DISTRIBUTION, from page 81)*

be sure that the demand penetrated the entire distribution chain. Disney and other corporate giants can create demand with money. Small companies like The Lyons Group (a start-up subsidiary of Developmental Learning Materials, a $50-million Dallas company) have to do it with smarts.

The Lyons Group strategy, after the Toys "R" Us debacle, boiled down to this: to presell the product at both levels of the distribution chain, retail and wholesale.

To get retail stores to stock the tapes, Parker and Leach had to presell consumers—kids, and through them their parents. So Leach sent free Barney videos to day-care centers in selected areas. The centers showed the tapes, and the kids were hooked. At the same time, Leach used part-time telemarketers to tell area retailers what she was doing. When several had agreed to buy a few tapes to stock, she sent the preschools a list of places where Barney was sold locally. Kids would nag parents, who would buy, which began the demand.

Then Leach told retailers they could get Barney from their regular distributors if they'd help her persuade those distributors to buy from her. Retailers did—with letters, calls, and orders for Barney tapes—which was the best sales argument Leach could bring to the wholesalers.

The sales process was a little more complicated with national retail chains, where Leach first had to sell local buyers, then get them to help her sell to national buyers, who then dealt with the next level of distribution. But the principle was the same: to presell the customer's customer.

Now Barney tapes are sold in practically every major video outlet, as well as toy stores, catalogs, supermarkets, drugstores, and bookstores. Last year, *TV Guide* named Barney one of its top 10 kidvids. The Lyons Group has spent about $675,000 over three years to nudge Barney and the Backyard Gang to national stardom.

A lot of money? Yes, but consider that just one 30-second TV spot can cost an advertiser $100,000 or more—*before* production costs. Smarter *is* cheaper. —*T. R.*

---

RESOURCE

## *Do-It-Yourself Survey Software*

**Customer surveys—the kind that ask, "How are we doing?" and "What would you like to buy from us?"—are useful but expensive.**

**Two years ago Proex Photo Systems, a photo-processing and portrait company based in Edina, Minn., paid a firm $35,000 to design and conduct a survey of 1,500 customers and to tabulate the results. This year 10-year-old Proex, with 20 retail locations in Minnesota, will conduct another big (albeit less complex) survey. This one, however, will cost just $2 a head—about 8.5% of what Proex paid before. "That's quite a difference," notes company founder and president Bruce Thomson.**

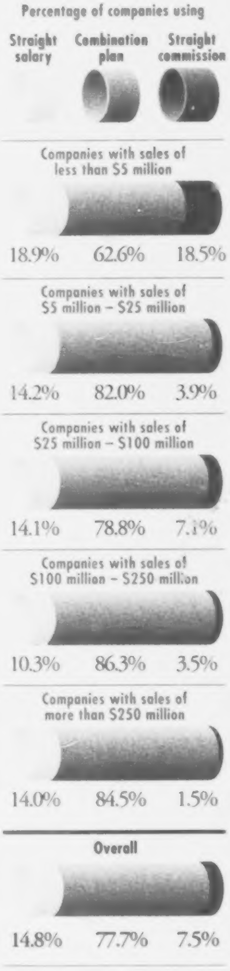
**The difference is that this year Thomson is paying the outside firm only to ask the questions. Everything else—**

*(Continued on next page)*

COMPENSATION

## *How Do You Pay Your Sales Force?*

*Today many companies prefer to pay their sales forces a combination of salary and incentives. But according to The Dartnell Corp., straight commission is still in vogue among the smallest companies, those with $1 million to $2 million in sales.*



Source: "Twenty-sixth Survey of Sales Force Compensation," a survey of U.S. companies, 72.3% with sales less than $50 million. The Dartnell Corp., Chicago, 1990.

SALES PITCHES

## *Get in the Door One Step at a Time*

YOURS IS SUCH A LITTLE company, and your potential customers—outfits like General Electric, Citibank, and IBM—are so huge. If you could just sign one of them on as a full-scale client, the revenues would be magnificent.

"Hello," you say, knocking on the corporate front door. "We're new and we're good, and we'd like to service your whole company."

"Beat it, kid."

Pierce Lowrey Jr., a Texan transplanted to New York City, has a different approach. He goes to the back door and asks for just a little bit of the business. That strategy, he says, is more likely than the other to get him invited in—and once he's in, he'll be in a much better position to sell.

Lowrey's company, Imtech, provides back-office support services to large companies. Imtech can operate mail rooms, data-processing departments, copy and printing shops, record-maintenance systems—almost anything that's information-related. By the end of Imtech's fourth year, sales had climbed to $21 million, but not because of one or two big scores. The company has more than 200 clients. Naturally, it will keep hunting new ones. But a large part of Imtech's growth will come from expanding its sales to the elephants it's already bagged. "After you've caught one," Lowrey says, "the way to eat it is one bite at a time." —*T. R.*

CHART: ROSS CULBERT LAVERLY & RUSSMAN INC., NEW YORK

*(RESOURCE, from page 82)*

composing the questions, entering the responses, and tabulating the results—Proex will do itself using a $695 PC-based software package called Survey Master.

The program, one of a handful on the market, lets you write questions of any type: true/false, fill-in-the-blank, multiple choice, rating scale, and open-ended. While you're doing that, Survey Master creates the corresponding data-entry form you'll use to enter the results. (With most of the other programs, writing the questions and creating the data-entry form are two separate steps.) With all the survey programs, it's up to you how you want to tabulate the answers you get, but the software will prompt you and perform any cross-tabulation you want.

What Survey Master—or any other program—won't do is help you know which questions to ask. The Survey Master documentation does contain a short primer on survey design, but Thomson sometimes runs his questions by a professional pollster first to be sure the answers will yield the information he wants.

Survey Master is available from the manufacturer, Plain Jayne Software, in Edina, Minn., at (800) 827-4013.

*—T. R.*

### TRADE SHOWS

## *Training on the Train*

FOR $2,900—$2,100 TO CHARTER the Amtrak coach and $800 for the catering—Westcon, a New York City distributor of computer-network hardware and purveyor of network technical training, bought itself four uninterrupted hours of access to several dozen of its customers, potential customers, and trade-press journalists.

Chartering the train wasn't just a lark. All those people had to get from Manhattan to Boston for an industry trade show, anyway. So six-year-old Westcon, which had sales last year of more than $30 million, made the trek a promotional event. In one part of the car, Westcon instructors finished the second half of a day-long training course that had started in New York City earlier in the morning. "We called it 'Training on the Train,' " says Bruce Hanson, vice-president of educational services, "and sent out invitations that looked like boarding passes."

Renting the Amtrak coach was cheaper than throwing a dinner party. What's more, it had some practical purposes—not just training, but transportation as well—and it was unique.

"We were trying to establish that we are more innovative than the competition," says Hanson, who plans to put another Westcon training train on the tracks this fall to Washington, D.C. *—T. R.*

*Journalists and potential customers made tracks to the Amtrak coach chartered by Westcon's Hanson.*

PHOTOGRAPH: PATRICK HABRON

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INC81

# MANAGING PEOPLE

*NSLA's Hall: Choose a leasing firm that has grown slowly.*

WORK FORCE

## *Sidestepping the Potholes in Employee Leasing*

ONE OF THE MOST ENTICING WAYS TO SAVE MONEY and reduce paperwork these days is by contracting with an employee-leasing company. For a fee, such companies will become your human-resources-administration department: they'll handle payroll and payroll taxes, provide health and workers' compensation insurance, and administer other benefits programs. The employee-leasing company becomes the coemployer of your workers, and you get better programs at a price you could never negotiate on your own. (See "The Joy of Leasing," May 1990.)

That makes a pretty attractive package, but it's one with some unpleasant surprises inside. The employee-leasing field is so new and is growing so fast that it has attracted some undesirable participants. And you don't dare expose your employees to a company that may not make good on insurance claims. Here are the questions you should ask to find an honest, well-run employee-leasing company:

**How long have you been in business?** You're probably safest with a company that has been in business for five years and has grown gradually. "There has not yet been a firm in this industry that's had explosive growth that has not been followed with an explosive downfall," asserts L. Morgan Hall, president of the National Staff Leasing Association (NSLA), in Alexandria, Va. Rapid growth means a firm may be underpricing its insurance

*(Continued on next page)*

RESOURCE

## *Wall Postings*

**Keeping up with the welter of postings demanded by the Department of Labor and state governments can be a pain in the neck. Although you can get the posters gratis from the government (for federal posters, write to Employment Standards Administration, Office of Support Services, U.S. Department of Labor, Room S3013C, 200 Constitution Ave. NW, Washington, DC 20210), you might consider buying sturdier versions from Career Dynamics, of Mendota, Ill. (800-346-1231), which produces a 15-by-22-inch laminated Labor Law poster for $8.95. The poster displays all federal regulations, in English or Spanish: Minimum Wage Law, Job Safety and Health Protection (OSHA), Polygraph Testing, Equal Employment Opportunity, Handicapped Workers' Rights, Age Discrimination, and Child Labor. State labor posters are available, too. —*E. E. S.***

WORKPLACE

## *Scratch That Corner Office*

WHAT DO EMPLOYEES really want in their work environment? The answers might surprise you. When Robert Lebow, a marketing executive, wanted to start a consulting practice in Bellevue, Wash., he asked Chicago's International Survey Research to help him answer that question. After analyzing the responses of 2.4 million workers in 32 industrial sectors in the United States over 17 years, the following eight characteristics "were the standouts," says Lebow, chairman of Heroic Environments.

1. To be treated with uncompromising truth
2. To be trusted by one's associates
3. To mentor and be mentored unselfishly
4. Receptivity to new ideas, regardless of their origin
5. To be able to take risks for the organization's sake
6. Credit to be given where it's due
7. Ethical behavior
8. The interests of others to be considered before one's own interests —*E. E. S.*

**IN THIS SECTION**

SIDESTEPPING POTHOLES IN EMPLOYEE LEASING
*How to screen companies*

RESOURCE: WALL POSTINGS

SCRATCH THAT CORNER OFFICE
*What employees* really *want in a work environment*

PENNY-PINCHING IDEAS
*Smart incentive awards*

HOW DO EMPLOYEES THINK?
*Ron Parks's 'thinking model' of management*

**Edited by
Ellyn E. Spragins**

PHOTOGRAPH: KEVIN CRUFF

*(WORK FORCE, from page 84)*

or pouring too much of its customers' payments into marketing efforts.

•

**Could I talk to five of your long-standing clients who are in my business and operate in my area?** You want those clients to attest to accuracy and consistency in meeting payrolls, as well as confirm the employee-leasing firm's responsiveness. Ask how payroll delivery and other services work. Greg Hammond, general counsel of the NSLA, suggests asking: " 'If someone gets hurt on the job, is there a procedure to follow?' You want a workers' compensation program, not just workers' compensation insurance."

•

**How do you handle sexual-harassment charges?** "Oh, we let you handle that" is the wrong answer. Sexual harassment is a joint liability of the leasing company and its client. A good company has a comprehensive approach—which may include training programs in sensitivity, safety, and other areas—toward such potential problems.

•

**Could I have the name of your bank, your insurance broker, and your insurance company?** Again, the answers should be forthcoming. You should request credit references from the bank, details on the insurance coverage provided, and duration of the relationship with the insurance company. Check also that the insurance company is highly rated by A. M. Best.

•

**Who is your third-party administrator (TPA)?** Employee-leasing companies that are self-insured, as most are, must have an independent company, called a third-party administrator, handle administrative matters and claims payouts. Ask the TPA for a record of the leasing firm's payments of claims and a description of any cash-flow problems, and—most important—if the firm has ever asked the TPA to stop paying claims.

•

**Is your administrator licensed to sell insurance in my state?** "If your leasing company is using a self-insured health plan, the third-party administrator or the reinsurer must be licensed in the employee's state," Hall says. Call your state insurance commissioner's office to confirm.

•

**What kind of reinsurance coverage do you have?** The self-insured firm must have an insurance company that will step in if an individual claim exceeds a certain amount or if, in aggregate, all claims surpass a specified figure. Otherwise, you won't be adequately covered against catastrophe.

•

**Could I see the results of a quarterly audit by an independent third party?** Get proof that all tax deposits, insurance premiums, and employee-benefits payments have been made on time. NSLA members must submit such statements. Even if your employee-leasing firm is not a member, ask to receive such reports on an ongoing basis. If it won't comply, find a company that will. *—E. E. S.*

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**INCENTIVES**

## *Penny-pinching Ideas*

***Reynolds's 'bird bills' fit the bill.***

WHEN TIMES ARE tough, the tough sometimes need a little help to get going. But spending cash on incentive awards may be the last thing you can afford. Here are some creative, low-cost ideas for rewards:

- **The thanks-for-the-loan-of-your-spouse prize.** Chris Carey, president of Datatec, a Fairfield, N.J., company that installs in-store computer systems, measures success through customer surveys. The employee with the highest survey score at the end of each quarter receives a plaque of recognition. And the employee's spouse receives a letter of appreciation and a certificate for a free dinner for two.
- **Perfectionism has its rewards.** Using the same customer surveys, Datatec also tracks the number of perfect scores per job site on a monthly basis. Workers who raked in the greatest number of perfect scores receive a "data dollar," which can be used to purchase products from a catalog.
- **Pampering without guilt.** Happy Feet Day was born the afternoon that Linda L. Miles, president of Linda L. Miles & Associates, in Virginia Beach, Va., stole away from the office to have a pedicure. Miles, who with her mostly female staff designs and conducts seminars, thought it might be nice for everyone to take an hour off to get pedicures. Total tab: $175, plus tip.
- **First-in-first-out award.** The coffee cup, balloons, or flowers and free lunch that $34-million Phoenix Textile, a St. Louis–based health-care linen supplier, gives its Employee of the Month aren't expensive or particularly memorable. But winners are reminded daily of their status by one other perk that goes with the award—the parking space right next to the front door.
- **Monopoly money with purchasing power.** Two years ago, when Pam Reynolds, president of Phoenix Textiles, wanted to design a new incentive system, she invented a new currency: "bird bills." Employees could earn the play money through excellent performance in 10 to 15 areas. To foster teamwork each employee was also granted a "bank account" of bird bills, which could be given to other employees who helped them. At year-end Phoenix hosted a cocktail party and auction at which employees could use their bird bills to buy items such as movie tickets, a cruise, a fax machine, and sleeping bags. The total cost of about $15,000 (including dinner and the auction) may seem high, but the program's cost per person is only about $214. *—E. E. S.*

PHOTOGRAPH: MARK KATZMAN

MOTIVATION

## *How Do Employees Think?*

MONEY AND BENEFITS ARE THE universal carrots dangled before employees. But they can be ridiculously out of place. "Do you think you could stimulate Mother Teresa with a retirement plan?" asks Ron Parks, president of Millard Manufacturing, in Omaha.

After nearly 20 years of managing experience, Parks has devised an interviewing technique that digs deep into workers' hearts and minds to figure out, among other things, what motivates them. The information helps Parks select the right person for a job, but it's also an invaluable management tool.

The key question he asks to pinpoint a person's source of motivation: "When you are working on a project, how do you know you are doing a good job?" A person who tells you that she knows within herself whether her work is first-rate is, in Parks's term, "internal"—or self-directed. The person who says, "My boss (or my coworkers) tells me so" is external, requiring input from the outside.

Either may be a desirable worker in the right job. Obviously, an external would flounder in a position in which his work is rarely reviewed. Nor would he thrive working for a boss who is stingy with praise.

In contrast, praise is sometimes not the best tool with the self-directed. Such people will feel embarrassed—or even offended—if they are complimented by someone who isn't qualified to judge their accomplishments.

Parks, who has spent nearly two decades perfecting his "thinking model" of management, asks another dozen or so questions to ascertain an employee's performance profile. But if he could focus on one trait only, Parks would choose motivation. "I can accomplish more by knowing this one attribute than I can with any other," he explains. —*E. E. S.*

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# BANKING & CAPITAL

RESOURCES

## *Financing Your Company*

A LOT OF PEOPLE, OURselves included, have noted that financing a business in the wake of the freewheeling 1980s demands different talents—a stronger stomach, for one. More imagination, too. A business owner also needs to know his options, and when those options have run out, he needs to tap others.

GUERRILLA FINANCING
BRUCE BLECHMAN AND JAY CONRAD LEVINSON

If you're looking for ways to raise money, you might want to check out *Guerrilla Financing*, by Bruce Jan Blechman and Jay Conrad Levinson (Houghton Mifflin, 1991). The book is crammed with useful information and suggestions on where to look for relatively small sums, as well as advice on how to roll with the punches. Even though *Guerrilla Financing* wades into technical stuff, it's ideal for browsing: chapters are carved into bite-size sections with headings that guide you along. Some sample headings: "What not to include in a financing plan," "What if you have little collateral and weak credit," and "How to find an aggressive banker."

You might also seek out another recent title, *Surviving the Credit Crunch of the '90s*, by Lance H. Woeltjen and Thomas B. Sanders (Chilton Book Co., 1991). This one is less comprehensive and less down-to-earth; even so, it presents a number of useful techniques for controlling cash, finding investors, and valuing your business. ***—B. G. P.***

CONSULTANTS

## *Checking Out the Money Finders*

IF YOU'RE WONDERING WHERE YOUR NEXT DOLlars are coming from, don't be surprised if a colleague suggests a "money finder." Money finders, who run the gamut from creative financial strategists to folks who call on the same bankers you already know, are popping up everywhere. How do you know which ones can truly deliver?

Since there are no licensing or professional standards governing financial consulting to small companies, you must carefully assess the person you hire. You can get referrals from your accountant, lawyer, or banker, but you should know what to look for and what you can expect from a money finder. (To see how they charge, see box below.)

**What has the person done before?** Make sure that the individual you select understands equity and debt markets, and can work with all the money sources you may need. Somebody who's spent the past 10 years concentrating on equity placements, for example, may be useless with bankers. You can get a sense of a particular finder's orientation by reviewing what that finder has done and by inquiring about his or her

*(Continued on next page)*

### HOW DO MONEY FINDERS CHARGE?

**Plan on paying reputable money finders a percentage of the money they help you tap, plus some additional fees for services they provide. They don't lump everything into one fee, because some deals are never completed, and the business plan, which might run an additional $3,000 to $10,000, can be used for other purposes. Many finders have minimums or retainers, which are often advances against the ultimate fund-raising fees.**

**For bank debt, expect to pay 1% to 3% of the amount raised. If you're looking for subordinated debt or equity, fees could be as high as 3% to 5%, or may be on a sliding scale: 5% for the first $1 million, less on the remainder. Why so much? "It takes as much work to raise $250,000 as it does to raise $2.5 million," says Larry Nathan, a Longmeadow, Mass., investment banker. "Maybe more."**

### IN THIS SECTION

CHECKING OUT THE MONEY FINDERS
*Finding those who can really deliver*

RESOURCES: FINANCING YOUR COMPANY

ENHANCING YOUR CREDIT
*Using collateral-control services*

WASH OUT DEFECTORS
*Make venture capitalists sign prenuptial agreements*

**Edited by**
**Bruce G. Posner**

ILLUSTRATION: ROXANA VILLA

LENDING

## Bankers' State of Mind

Is your lender in a foul mood? Don't take it personally. It could be that the bank's portfolio has been sinking into quicksand. We took a look at all nonperforming loans (generally defined as loans that are 90 days or more past due and/or those that are not accruing interest). We included real estate, commercial, and personal loans, on the theory that bad loans, whatever the type, can color a banker's vision. Here are the states with the worst and best records as of the end of 1990.

**Nonperforming Loans**

| Sitting Pretty | As % of gross loans | % change from 12/31/89 | In the Dumps | As % of gross loans | % change from 12/31/89 |
|---|---|---|---|---|---|
| 1. Hawaii | 0.5% | 2% | 1. Connecticut | 10.4% | 57% |
| 2. Idaho | 0.9 | 11 | 2. D.C. | 8.6 | 502 |
| 3. Iowa | 1.1 | (7) | 3. Massachusetts | 8.0 | 42 |
| 4. Nebraska | 1.2 | (5) | 4. Rhode Island | 7.1 | 145 |
| 5. Alabama | 1.3 | 20 | 5. New York | 6.6 | 23 |
| 6. Michigan | 1.4 | 35 | 6. New Jersey | 6.3 | 101 |
| 7. Wisconsin | 1.4 | 32 | 7. New Hampshire | 5.0 | 36 |
| 8. Washington | 1.6 | 0 | 8. Arizona | 4.6 | (17) |
| 9. South Carolina | 1.6 | 74 | 9. Louisiana | 4.3 | 13 |
| 10. North Dakota | 1.7 | (13) | 10. Maine | 4.3 | 61 |

Source: Sheshunoff Information Services, Austin, 1991.

*(CONSULTANTS, from page 87)*

best contacts. If everyone the finder names is in equipment leasing—or any other niche—he or she may be too limited.

**What do references say about your finder?** Reputable finders will gladly furnish you with a list of their clients. The list will almost always be made up of people they've helped. But just because a finder has raised money for those people doesn't mean they're all fans. Ken Kinkel, CEO of CW Electronics, in Denver, suggests asking a finder's former clients if they would hire that person again. Also ask finders about the situations that *didn't* work out. What went wrong? What might they or the client have done differently? Ask to speak with some of those references, too.

**What do they envision doing for you?** A finder's contacts are important, but the best people have other skills to offer as well. They can help you write or fine-tune your business plan, prioritize which sources to hit first, and tutor you on what to say in a presentation. You may be tempted to let the finder handle all the dealings with money sources, but most financial people expect you and your managers to do the selling: they're judging your company's management, and that's whom they have to feel comfortable with.

Before you begin working with a finder, define in writing fees, scheduling, and the scope of the project. Be skeptical of anyone who works on a nonexclusive basis. Without a written agreement, a finder may feel less committed to you and may end up poisoning your best sources. *—B. G. P.*

COLLATERAL

## Enhancing Your Credit

WHEN SKITTISH LENDERS SCOWL AT THE IDEA OF advancing the amount of cash you need against your inventory, don't despair. You may be able to change their minds by offering to use a third-party collateral-control specialist. When you enlist an outsider experienced in the ins and outs of watching collateral, your lender may feel less exposed to the risk of vanishing inventory and misappropriated funds. You, in turn, will improve your chances of borrowing more money.

Collateral-control services are more popular in tight-credit periods, but the basic format has been around for decades. It works like this: whenever you receive delivery of goods, you pledge the inventory to the lender, just as you do in ordinary asset-based financing. The difference is in the level of control needed to assure the lender that the assets listed actually exist and are being properly monitored.

To begin with, selected employees of the borrowing company are bonded and deputized as field agents of the collateral-control firm. Technically, those agents are employed and paid by the collateral-control firm, but the borrowing company underwrites their salaries. They're required, among other things, to file weekly reports with the bank and collateral company on the ebb and flow of inventory, along with relevant documentation (invoices, shipment orders, and so on). For an added layer of security, collateral firms do their own verification on inventory every 30 or 60 days; some firms protect lenders even further with liability insurance. The cost of these features will vary; while they may add .5% to 1.5% to the cost of borrowing, the overall interest rate may not increase that much, since the added protection causes the lender's risk to be lower. *—B. G. P.*

**If you're interested in exploring the collateral-control options that may be available for your business, ask your banker or accountant for local referrals. Also, there are several companies that do business nationally, including DiversiCorp, based in Dallas, (800) 875-9813; Douglas Guardian Warehouse, based in San Francisco, (800) 227-4644; and Inventory Verification Services, based in St. Louis, (800) 878-3444.**

▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼

### USING COLLATERAL CONTROL WITHOUT DEBT

**You don't have to tap debt sources to find collateral-control services helpful. Some wholesalers and retailers use the approach to get better terms from vendors. Noah Hebert, who owns two large furniture stores in New Orleans, receives merchandise from more than 20 suppliers who agree to forgo payment until the items are sold. "If they didn't have confidence in the way the inventory is monitored," Hebert says, "they'd ship us a lot less. It's a sophisticated consignment system—we get to keep an extensive inventory without borrowing from the bank."**

CHART: ROSS CULBERT LAVERLY & RUSSMAN INC., NEW YORK

*Marks: Argue for prenuptial terms.*

**VENTURE CAPITAL**

## *Wash Out Defectors*

IF YOU'RE CLOSING IN ON financing from venture capitalists, don't assume that just because they're hot on you today they'll be eager to bankroll you tomorrow. Lately, a number of venture-backed companies have been deserted by investors who ran out of money to invest or lost their enthusiasm. In some cases, defections have killed companies. How can you increase the likelihood of future funding?

One approach is to persuade the VCs to sign a prenuptial agreement. Before they put the first dollars in, they sign a "pay to play" provision that spells out the investors' responsibility to put up their pro rata share in future financing or suffer getting their current shares badly diluted—or "washed out." Shares worth $1 might be cut to 1¢. Or investors might be stripped of their liquidation preference. "The idea is to put pressure on the whole investor group," says Dan Finkelman, a lawyer at Testa, Hurwitz & Thibeault, in Boston.

In most cases these days, the terms of financing are proposed by investors. But there's no reason you can't argue for a prenuptial provision. "It won't guarantee that investors stay with you," says Arthur J. Marks, a general partner with New Enterprise Associates, in Baltimore. "But it could encourage people to earmark money for future rounds and make it painful if they don't." —*B. G. P.*

PHOTOGRAPH: CHARLES FREEMAN

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- How you can save thousands of dollars on the cost of your company's medical insurance. **(Idea #244–Cost Control)**
- A sure-fire program for getting rid of your accounts receivable bad debt. **(Idea #254–Collections)**
- How a $6 investment can make your weekly staff meetings more efficient. **(Idea #201–Meetings)**

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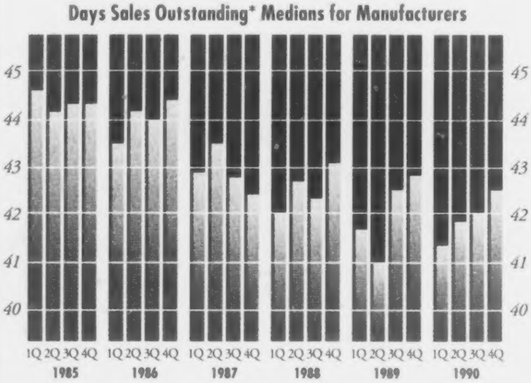
# FINANCIAL STRATEGIES

COLLECTIONS

## *Getting Paid*



Source: "National Summary of Domestic Trade Receivables," based on a quarterly survey of 275 to 300 manufacturers. Credit Research Foundation, Columbia, Md., 1991.

*Calculated by multiplying the most recent three months' worth of average trade receivables by 90 and then dividing by the most recent three months' worth of credit sales.

The last six years witnessed a general decline in "days sales outstanding" — the ratio measuring how quickly receivables are paid. (See chart, left.) But apparently those were the good old days. Robert F. Thompson, president of the Credit Research Foundation, expects to see an uptick in the DSO for the first quarter of 1991 and perhaps beyond. "We're seeing a slower turn of receivables in general," he says. "It's the beginning of a change." And perhaps the time to tighten credit policies, he adds.

"It's never too late to send letters to existing as well as new customers telling them you've revised your procedures," agrees Robert A. Weissman, a Los Angeles lawyer specializing in collections and creditors' rights. "Then require them to sign a formal credit application that includes notices about payment terms, late fees, attorneys' charges, and other expenses you'll expect them to bear if bills become overdue."

—*Susan Greco and J.A.F.*

BUSINESS VALUATIONS

## *Know Your Worth*

JACQUELINE MOORE, CEO OF RIDGAway Philips, a home health agency in Spring House, Pa., wanted to know how much money she could raise to make an acquisition. To find out, she had a valuation of her company done. In the process, she discovered the importance of improving her cash management, making better use of her company's assets, and planning tax-advantaged exit strategies.

Moore hired Fred Roa of Telesis, a valuation specialist in her industry, to do the appraisal for half his $12,000 fee up front and the balance upon completion.

Because of Moore's strong history of earnings, Roa arrived at a $6.8-million price tag by calculating the value of Ridgaway Philips based on its future potential earnings. He also considered recent sale prices of competitors and the growth potential of the market for comparison. Roa had considered using an asset approach to valuation—which takes into account the future value of a company's assets—but based on its assets, Ridgaway Philips was worth only $5.7 million.

In the process of arriving at those figures, Roa discovered information Moore really could use. Together they looked at Ridgaway Philips's major hard asset—its $50,000 computer system—and found that it was being used a small fraction of its potential. "We thought because the system slowed down whenever we did payroll that it was close to capacity, but we were wrong," says Moore. She's promoted an employee to establish a routine for system maintenance and to

*(Continued on page 91)*

RESOURCES

### *Valuing Your Business*

**To learn more about valuing a company, consider *What Is a Business Worth?* by Jeffrey P. Wright ($14.95 plus $2 postage), which provides equations for calculating value. To order write to EVS Publications, P.O. Box 5268, Scottsdale, AZ 85261. Also look at *Business Valuation Manual*, by Thomas W. Horn ($29.95 plus $2.50) from Charter Oak Press, P.O. Box 7783, Lancaster, PA 17604, (717) 560-9338.**

### IN THIS SECTION

KNOW YOUR WORTH
*The payoffs of valuations*

RESOURCES: VALUING YOUR BUSINESS

LIKE-KIND EXCHANGES
*Swapping buildings*

ACCOUNTING PROS
*A sea of choices*

SECURE YOUR STAKE
*How to protect personal cash put into your business*

**Edited by Jill Andresky Fraser**

CHART: ROSS CULBERT LAVERLY & RUSSMAN INC., NEW YORK

*(BUSINESS, from page 90)* develop the computer's sales-reporting and general-ledger capabilities, and a variety of other management reports.

Roa pointed out that Ridgaway Philips's cash was exposed and vulnerable. Only a small percentage of the company's seven-day commercial paper was insured by the FDIC, and its credit line was underutilized. Roa convinced Moore she needed to protect her company's cash.

To prevent earnings from piling up in the future, Moore is researching a number of options, including planned giving as a long-term tax-advantaged exit strategy, and using some of the built-up cash to start a foundation for child-advocacy programs, which she would continue to fund with future profits. Her goal is to reinvest the company's profits in the community she serves, a strategy that has the additional appeal of reducing the company's taxable income.

***—Teri Lammers***

TAX STRATEGIES

## *Like-Kind Exchanges*

KEVIN BALIOZIAN, PRESIDENT of Tekno, a photography-lighting distributor, was in a bind: He couldn't afford to keep operating out of his 20,000-square-foot building in the River North area of Chicago, since the neighborhood had become so gentrified that his real estate taxes had risen sky-high and his customer base—professional photographers—had moved elsewhere in search of lower rents. But he also couldn't afford to sell the building and move, since he owed taxes on about $1 million worth of capital gains.

Fortunately, there was a solution: a like-kind exchange (known as a Section 1031 transfer by the IRS). "Here's a way to exchange one property for another to defer capital-gains taxes until you dispose of the new property," explains Marty Birnbaum, a principal at Miller, Cooper & Co., a Northbrook, Ill., accounting firm.

The deal can be structured around exchanges between one business and another of any set of buildings used for similar purposes, and may include office buildings, warehouses, or any other type of commercial property, as well as raw land held for investment purposes. Baliozian has added an interesting twist to Tekno's like-kind exchange. "We're selling our old building to one business owner while a third party is constructing a similar building for us in another, lower-cost location," he explains.

***Tekno president Baliozian***

To safeguard his tax advantage, Baliozian needed to comply with strict IRS guidelines. Proceeds from the sale of Tekno's old building went into an escrow account that was eventually used to pay for construction of the new building. Within 45 days of the sale, a signed contract had to identify the site and description of the building designated for the swap. Then construction had to be completed within 180 days of the original sale.

Since the swap wasn't exactly equivalent—the new building cost less than the original was sold for—Tekno did incur a small capital-gains tax liability, but one much less than Baliozian had anticipated owing without the like-kind exchange. "I can't complain," he says. "We kept the tax bill under control and wound up with exactly the kind of building we wanted in a location that we could afford near our customers."

***—J. A. F.***

ADVISERS

## *Accounting Pros*

SMALL-BUSINESS OWNERS MUST choose among a bewildering array of accounting-service options when it's time to prepare tax returns and financial statements. (See table at right.) While CPAs are the most expensive option, they're more than worth the cost, given the rigor of their training, peer review, and regulation.

The AICPA publishes a directory of 6,000 member CPA firms, all of which provide their CPAs with at least 120 hours of continuing education every three years and undergo a peer review of accounting and auditing practices every three years. The directory is free; to order it call (800) 272-3476 (in New York, 212-575-6446).

***—Researched by Chris Caggiano***

| Type of professional | Services for business | Typical fee | Training/ regulation |
|---|---|---|---|
| Certified public accountant | Prepare, audit, and certify financials; tax preparation and planning; advice on management, M&A, and business sales; IRS-audit representation | $50–$250 per hour | B.A.; rigorous CPA exam; code of professional ethics; mandatory continuing education |
| Accountant | Tax preparation and planning; advice on management (but cannot represent at IRS audits unless also an enrolled agent; cannot certify financials) | $35–$200 per hour | No exam or licensing requirements; no educational standards |
| Enrolled agent | Can represent at IRS audits | $40–$185 per hour | Special exam; continuing education requirements |
| Tax preparer | Can fill out tax forms (can represent at IRS audits if an enrolled agent) | $20–$175 per hour | May have some training classes; in most states, no exam or licensing requirements |

PHOTOGRAPH: ANDY GOODWIN

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## FINANCIAL STRATEGIES

### ASSET PROTECTION

## *Secure Your Stake*

WHEN COMPANIES HIT HARD times, owners often reach into their own pockets for cash infusions into their businesses. Unless those infusions are carefully documented as loans, owners' funds may be irretrievably lost if the business is eventually forced into bankruptcy proceedings.

To avoid that risk, Richard Bruder, a law partner with Seyburn, Kahn, Ginn, Bess, Howard & Harnisch, in Southfield, Mich., recommends these strategies:

- **If you're in a cash crunch, document *all* your cash infusions as secured loans.** This requires three legal documents: (1) a promissory note, signed by your company, the borrower, that details the amount and date of the loan as well as payment terms; (2) a security agreement, also signed by the company, describing the assets against which the company grants you a lien as collateral; (3) a UCC-1 financing statement—to be filed with your secretary of state—which formally establishes a record of your lien.
- **If you're in a growth mode, tie your cash contributions to specific asset acquisitions and then formally secure the loan with a lien against that new asset.** "If you can demonstrate that you've personally provided the funds to acquire a new asset, a security agreement can give you the first lien against it," says Bruder. Remember also to back up the loan with a promissory note and a UCC-1 filing.

If a company is in a cash bind, Bruder advises that owners not pay themselves salaries when they know they'll only have to lend that money to the company. By forgoing salaries, they can avoid incurring immediate payroll-tax obligations. Instead, owners should document and secure forgone salary as a loan to the company. That will, at a minimum, defer the tax on that money and possibly reduce combined taxes paid by the company and the owners. *—J. A. F.*

# IN THE OFFICE

## SAVING CASH

## *How to Cut Postage Costs*

TRY AS IT MIGHT, NO ALTERNATIVE DELIVERER HAS been able to spirit a piece of flat mail around the country more efficiently than the U.S. Postal Service (USPS). Must the private sector therefore swallow whatever Washington feels like charging? Not necessarily—thanks to a marketing scheme of the USPS itself, which grants significant price breaks for mail that meets certain preconditions.

One of them is Zip + 4, a coding strategy introduced in 1983, in which every mailing address in the country has its own nine-digit zip code. By the late 1980s, though, barely 15% of domestic mail was using such "smart" codes, mainly because it takes a colossal database merely to store them. To entice reluctant businesses into adopting Zip + 4, the USPS offers to upgrade a commercial mailing list from five to nine digits for free. The conversion is a one-time-only favor, however, after which the participant is obliged to update the list at its own not-inconsiderable expense.

**For more on Zip + 4 and the importance of clean mailing lists, see page 96.**

Cost is no longer an excuse. In a play for the ordinary-business market, Arc Tangent recently trimmed the cost of its zip-coding product by 87%, from $1,495 to $195. Given that pricing, how many pieces of flat mail would a run-of-the-mill enterprise have to process for in-house automation to pay off? As few as 1,000 a month, warrants Arc Tangent president William Urschel. He ought to know: his company mails about that amount. *—R. A. M.*

## OFFICE TECHNOLOGY

## *Networking Without Wires*

THE COMPUTERS IN A local-area network at The Travelers Cos., in Hartford, aren't linked by thick electrical cords snaking across ceilings and down walls. Yet its terminals magically communicate with one another and a central processor just as in a conventional LAN. The difference is that Travelers is "wired" by infrared light, a medium that (along with radio waves) is already freeing office networks from the physical bondage of coaxial cable—and the fiscal pain of leaving it behind if you move.

Not only can today's powerful desktop systems exchange data among themselves without visible support, but by the end of this year they'll be joined by battery-operated portables with identical abilities. That's the expectation of Gary Hughes, CEO of Photonics, in Campbell, Calif., an original-equipment-manufacturer supplier of the transceivers that will go inside the briefcase-size machines.

Infrared signals will allow the portables to be plugged into existing hard-wired office networks. But a more beguiling application is a concept wireless techies have termed "collaborative computing." Under it—for only about $100 more tacked on to the retail price of a typical laptop—we'll see regional managers at a national sales meeting, say, pump figures from their portables into a central processing unit, creating a companywide sales picture. Based on the results, the gathering can then collectively formulate the next year's campaign. Lest competitors should be lurking outside with *their* portables, the infrared signals can be kept within the confines of four walls, Hughes reassures apprehensive executives. *—R. A. M.*

▼

**WIRELESS-LAN PLAYERS**

*Infrared implementation:*

- **Photonics, Campbell, Calif., (408) 370-3033.**
- **BICC Communications, Auburn, Mass., (508) 832-8650.**

*Radio implementation:*

- **Motorola Corp., Arlington Heights, Ill., (800) 233-0877.**
- **NCR, Dayton, Ohio, (800) 544-3333.**

### IN THIS SECTION

HOW TO CUT POSTAGE COSTS
*Use presorting software*

NETWORKING WITHOUT WIRES
*Cable-free systems*

PLEASE HOLD FOR CUSTOMER SERVICE
*How software support stacks up*

RESOURCE: GRAPHIC CHALK-TALK

WALL-TO-WALL CARPING
*Open offices get no respect*

**Edited by Robert A. Mamis**

ILLUSTRATION: BOB HAMBLY

### THE PRODUCT

**It's called Zip++ (version 2.0) and costs $195. Both software and affiliated national address database come packaged on a single compact disc. The program is updated and reissued quarterly. In conjunction with Arc Tangent Professional Mail ($695), it merges and purges addresses, inserts nine-digit zip codes, presorts by carrier route, and prints form letters and bar codes. Runs on IBM-type microcomputer with hard disk; requires CD-ROM drive. Arc Tangent, Santa Barbara, Calif.; (805) 965-7277.**

●

### CLEANLINESS PAYS

**The USPS estimates that 15% of the average business list is wasted on bad addresses; thus a company that doesn't sanitize its lists essentially is paying 33.4¢ for a 29¢ stamp. The USPS's Zip + 4 conversion program turns the antiquated five-digit zip codes on corporate mailing lists into the efficient nine-digit kind so the post office can save on labor, and standardizes and corrects the spellings of addresses so companies can save on postage. To take advantage of the government's free offer, you must supply your list on an MS-DOS 3.5-inch or 5.25-inch floppy in standard database format. For information call (800) 238-3150 or write to the National Address Information Center, Diskette Processing Services, 6060 Primacy Pkwy., Suite 101, Memphis, TN 38188. Make that 38188-0001.**

SOFTWARE SUPPORT

# *Please Hold for Customer Service*

FEW ARE THE COMPUTER programs with code so clean and manuals so clear you don't require assistance from their vendors. To determine the alacrity of responses to outside pleas for help, *Inc.* phoned 18 software publishers of various sizes and products, to see how long a customer typically waits before being connected to live support.

Each vendor was dialed twice, once in the morning and once in the afternoon. As any consumer would, *Inc.* went for a toll-free number first, if one was available and wasn't constantly busy. Lacking a complimentary line, we dialed direct, on us.

Here's a representative sample of *Inc.*'s findings, viewed through the dialers' notes.

| COMPANY | SOFTWARE TYPE | TOLL-FREE LINE | HEARING-IMPAIRED LINE | HOURS * | SUPPORT STAFF |
|---|---|---|---|---|---|
| **Phoenix Call Reporting**<br>Lincoln Park, N.J. | sales management | yes | no | 8–8 | 31 |

**FIRST TRY:** The toll-free line turns out to be a private one installed by big customer seeking immediate responses to service problems. **Time elapsed: 0:10**

**SECOND TRY:** Private line not fair measure, so try switchboard. Operator dumps me into silent hold. Impossible to tell whether still on hold or disconnected eons ago. Eventually decide latter is the case, call back, again request tech support. Get tech-support manager, who explains company's support system is being revamped. **Time elapsed: infinity plus 1:00**

**FOLLOW-UP:** Several customers already have their own dedicated 800 lines (customer pays monthly charges). However, vendor isn't yet sure how many incoming calls computer system will be able to handle. Putative advantages to customer: individual attention, cheaper than direct dial.

| | | | | | |
|---|---|---|---|---|---|
| **Lotus Development**<br>Cambridge, Mass. | general business | yes | yes<br>(800) 457-0909 | 8:30–8<br>24-hour support for Lotus 1-2-3 | 200 |

**FIRST TRY:** Polite "welcome to Lotus. . . ." Picked up by live operator who screens problems and connects to appropriate specialist. Puts me through. **Time elapsed: 3:05**

**SECOND TRY:** Same polite message. Intermediary answers, puts me on hold. Brief bout of supermarket music. **Time elapsed: 2:05**

**FOLLOW-UP:** Lotus customers are given two service options—an 800 number free for six months (starting with the first phone call) and for $99 each year after; a 900 number for faster service, but with limited hours. Feature: watchdog computer that realigns support staff when it detects phone-wait times edging into customer service unacceptability.

| | | | | | |
|---|---|---|---|---|---|
| **ViewLogic Systems**<br>Marlboro, Mass. | engineering | yes | no | 8–8 | 10 |

**FIRST TRY:** Switchboard puts me through to tech support. Rings four times; recorded voice says no engineers available right now but leave name and company, someone will call back. Someone does. **Time elapsed: 6:30**

**SECOND TRY:** Again no one available right now. I leave return-call request, later receive call with explanation that staff member would have called back sooner but knew I wasn't a customer after consulting database. Company has generous policy of eventually helping anyone who calls. **Time elapsed: 27:15**

**FOLLOW-UP:** Phone attendants are electrical engineers doing a stint of product-support duty. Use of 800 number requires maintenance contract.

| | | | | | |
|---|---|---|---|---|---|
| **Microsoft**<br>Bellevue, Wash. | operating systems, general business | no | no | 9–9 | 800 |

**FIRST TRY:** Busy, busy, busy. Finally get through to touch-tone menu; given option to go into second level for frequently asked questions about specific product. I try it; am advised that while there I'm not in line for support but can leave anytime to get back in. Not fair timing test, so I autodial again, go direct to technician-summoning touch-tone "2." This provokes immediate assistance. **Time elapsed: 0:10**

**SECOND TRY:** Reach same menu, press "2." Recording says, "Welcome to Windows support group, please hold." Do so. **Time elapsed: 2:25.**

**FOLLOW-UP:** Submenu technique of defusing common problems has "really made a difference," says company. An average of 9,000 calls received a day; 85% are handled in less than 20 seconds.

| | | | | | |
|---|---|---|---|---|---|
| **WordPerfect**<br>Orem, Utah | word processing | yes | yes<br>(800) 321-3256 | continuous, 9 a.m. Monday–midnight Friday | about 760 |

**FIRST TRY:** Toll-free number is busy, so I dial direct. Connected with touch-tone menu. Get instruction to stay on line, next available blah blah blah. Music is wicked cool calypso-jazz. Piece ends, voice takes over, tells me how much longer. Also recites product promos like disc jockey. **Time elapsed: 7:15**

**SECOND TRY:** DJ estimates a five-minute wait. **Time elapsed: 4:00**

**FOLLOW-UP:** Company reports 15,000 to 16,000 service requests a day. DJ "traffic update" concept initiated in spring 1990 to reduce customer frustration. Reported reaction? "Extremely positive." Cost? For starters, four DJs make more than $20,000 each.

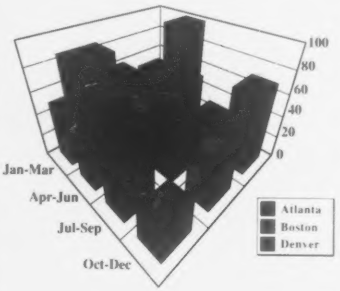
* Times given are Eastern time.

***—Researched by Susan Greco and Chris Caggiano***

**RESOURCE**

## Graphic Chalk-Talk

TWO-D OR 3-D?—THAT IS THE question. And one well asked of modest-priced business software that promotes an ability to draw three-dimensional presentation-quality graphs. Many such promises are fulfilled only in 2-D, with an ersatz third dimension consisting merely of cartoonlike shadowing. The reason for this is understandable: manipulating the variables of two axes (sales volume per month, for example) is simple enough even in a budget package, but tacking on a third axis (sales volume per month, broken down by region) adds spatial complexities solved at more developmental expense.



*A 3-D chart generated on the cheap*

That's not to say it can't be done on the cheap. *3-D Charts to Go!* (Bloc Publishing, Coral Gables, FL, 305-445-0903; 800-888-2562) delivers true height-by-width-by-depth renderings for a two-dimensional $100 bill. A recently released version running under Microsoft Windows converts imported or on-the-spot data into a dazzling display of bar, line, pie, and area graphs, together with headlines and other illustrative decor. Projected or printed as vivid representations of how your business is doing, they can't help impressing viewers—your backers, for instance.

It's so much fun you'll want to dust off a mouse and create designs in the privacy of your own office. Images can be spun around, pumped up, shrunk, recolored, elongated, compacted, crosshatched, viewed from above and below, made to unfold from the center, added to, subtracted from, combined, and so on till the clock strikes 5. The backers can wait. *—R. A. M.*

**OFFICE DESIGN**

## Wall-to-Wall Carping

IN A POLL CONDUCTED EARlier this year among several hundred corporate members of the American Productivity & Quality Center (APQC), a nonprofit business-research organization in Houston, more than half the respondents (56.8%) said they worked in fully walled offices, while less than a quarter (21.4%) claimed modular settings. The nearly three-to-one ratio suggests that semiwalled workplaces are not gaining on closed-door tradition as rapidly as the office-decor trade may presume. Indeed, a number of respondents thought open or modular offices showed disregard for people, dispatching that opinion—the APQC was chagrined to note—in "strong language." Groused one, "Open offices reflect a 'cheap' attitude." An organization that implements them, another complained, "treats employees as cattle."

Why so snippety? Disaffection is likely to result, theorizes Dan Wiseman, an APQC-affiliated consultant on white-collar work settings, "if you impose an open office on people who don't perceive themselves as a team." When one company designed new open offices, it separated clerical people from the executives they supported. The physical and social isolation resulted in a marked *increase* in errors and delays. After the company asked the employees to redo the layout themselves, efficiency and morale soared. "If office people are given a chance to create ownership of their own space," Wiseman observes, "they find ways to make it work." *—R. A. M.*

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# THE INC. NETWORK

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### CLUB HOUND

**In May Alex Popov asked about organizations of entrepreneurs in the Bay Area (Where Everybody Knows Your Name).**

The Community Entrepreneurs Organization (415-435-4461) is a grass-roots multi-industry networking group that has been around for about nine years and meets in San Rafael on the first Tuesday evening of each month. The Bay Area Entrepreneur Association (415-294-8149) is similar but much newer. And the Chief Executive Officers' Club (212-633-0060), a group for CEOs of companies with sales of at least $2 million, has a San Francisco chapter.

Roderick Crandall
Executive Director
Community Entrepreneurs
Organization

The San Francisco Chamber of Commerce (415-392-4511, ext. 819) sponsors committees for entrepreneurs that help them develop leads, organize seminars, and monitor laws.

David C. Bratt
Account Executive
Chamber of Commerce
San Francisco

The Executive Committee sponsors 240 presidents' groups in the United States and claims 2,600 members. Presidents meet twice a month, once with the committee chairman, once in a group of 13 to 15. There are 14 such groups in the San Francisco Bay area. Call (619) 563-5875 for information about these groups.

Dick Andreini
Chairman
The Executive Committee
San Jose, Calif.

### PET PEEVE

**Soon Carolyn Moskowitz will need to hire workers for her fast-growing house- and pet-minding service. She can bond them inexpensively if she hires them as employees, but she's worried about all the paperwork that would involve. She would rather hire independent contractors, but bonding them individually could get expensive (Safe Pets, May).**

Ms. Moskowitz should study the IRS's rules regarding classification of independent contractors. If she pays workers by the hour, week, or month, for instance, or if she trains them yet considers them independent contractors, she risks running afoul of the IRS. In addition, I've found that hiring workers as employees fosters good relations between me and my workers, and that helps me build a loyal clientele.

Matt Borneman
CEO
Tidy Maids
Dallas

Not one prospective client has ever declined my services because my employees were not bonded, once I explained my decision. I tell them the people I hire are honest. Bonding agents do not perform character checks. They confirm only that a person is financially able to match the amount of the bond. What the employer pays for is the bondsman's guarantee that if a client sues an employee and wins a court judgment less than or equal to the value of the bond, the bondsman will pay the client immediately and then pursue the

## NEW QUERIES

**How are you dealing with health-care costs? Our first query comes from a CEO who is considering self-insurance and wants to compare notes. Other readers ask about multilevel marketing, buying computers, and working through retirement. And in Resources, experts answer this question: how can you protect your invention when discussing it with others?**

### COMPANY, INSURE THYSELF

After years of watching health-insurance premiums at our $1.5-million corporation multiply while our benefits evaporated, we're considering self-insurance for our seven employees. Where can we get good advice on this? We'd love to hear from companies that are self-insured.

David Elkind
President
Elkind + Sweet
Communications
San Francisco

### SECRETS OF THE PYRAMIDS

I am researching multilevel marketing, and I want to know when in a company's life cycle new members stop making money. Has anyone analyzed this? I have found little information on the industry—only the suggestion that it is not bona fide. If that's true, I'd like to know that as well.

Deborah Grove
San Francisco

### ONCE BURNED

How do you make a decision when buying a large number of personal computers? Last year we started developing software to store and manipulate data in our field offices and to forward data to our headquarters for further analysis and accounting. We went to local providers, who answered all our questions and assured us their system was upgradeable and expandable. We outgrew it in a year and learned then that it would cost more to upgrade than to buy a new, larger system. Where can we get better, unbiased advice?

Bennie M. Warren
President
Consolidated Traffic
Management Services
Duluth, Ga.

### PART-TIME CEO

I'm planning to buy a small business a year or two before I retire. Is there information available on running a business part-time? Have people out there done it, and can they offer some advice?

Neil Steyskal
Washington, D.C.

employee for the amount later. Be sure to check with a bonding agent near you to make certain this is true in your area.

Sue Marshall
Owner
The Help Place
East Lansing, Mich.

Ms. Moskowitz should not assume that she can avoid paperwork and taxes by subcontracting. If she tells her workers what to do, where to do it, when it must be done, and in what manner, the IRS will probably consider them employees and could impose stiff penalties for misclassification. The IRS may hold her liable for all unpaid taxes on the reclassified worker and can reclassify all other workers in the same job capacity, introducing a tax burden that might drive Ms. Moskowitz out of business. The IRS can in some cases levy criminal charges. As a paid tax preparer, I have met many disgruntled employees who face large tax burdens because their employers treated them like independent subcontractors rather than employees. In every case, these employees reported their former employers for tax violations. My advice? Hire someone to handle the paperwork, and pay your taxes.

Wesley A. Kent
Warren, Mich.

*Please send your words of advice to The* Inc. *Network, 38 Commercial Wharf, Boston, MA 02110, or call our reader response line,* **(800) 444-1756.** *Or fax your letters to* **(617) 248-8090.** *We'll publish the best responses and queries.*

## RESOURCES

### HOT SEAT

I've designed a chair that is unique and marketable. How can I protect my designs when I approach manufacturers with my ideas?

Timothy Fox
Wareham, Mass.

**"All the money people spend protecting their ideas would be better spent trying to penetrate the market faster," says June Lavelle, president of the Fulton-Carroll Center, in Chicago. (See "Mother of Invention," October 1989.) Her incubator houses several furniture makers, and none, she says, sought patent protection for its designs. "If you really do have something good that's easy to copy, of course it's going to be ripped off. The real purpose of a patent is to slow down the competition, but how much does it truly slow them down? And how deep are your pockets? Because that means litigation. Well, shoot, isn't your money better spent marketing than litigating?**

**"The best defense is to hit the marketplace so fast that you get good market share before someone has the opportunity to knock you off," Lavelle says. As a last resort, she says, "I would knock myself off"—in other words, produce a cheaper version of her furniture before competitors could.**

**Others don't dismiss patent protection. "Right now the courts are deciding very much in favor of inventors, and patents are worth a lot," Don Moyer, founder of the Inventors' Council, in Chicago, says. It may take a few years for your application to be reviewed, but simply filing establishes the date of the patent pending. A carefully maintained, witnessed notebook can be used to tell when you conceived of your product. But you must file within a year of making your idea public or trying to commercialize it. The U.S. Patent and Trademark Office publishes the pamphlet "General Information Concerning Patents" (Superintendent of Documents number 003-004-00651-0), available from the Government Printing Office (202-783-3238) for $2. You may also establish the dates of conception of the idea with a disclosure document, which costs only $6 to file. Someone else can still win the patent on your idea, however, if he or she can prove earlier conception. For more information, call (703) 557-INFO.**

**You can also protect yourself with nondisclosure agreements, in which the signer agrees not to use or disclose your idea. Waltham, Mass., patent lawyer Joseph Iandiorio warns that some corporations, instead of signing such an agreement, will produce their own, which releases them from any obligation of confidentiality. "Those are the kind you don't want to sign," Iandiorio says.**

**Don Moyer thinks you may have trouble getting big companies to sign a secrecy agreement. "Manufacturers' mothers told them, 'Sonny, don't ever talk to inventors. Five years from now you'll forget you saw this and think you invented it, and that will get you into trouble.' You have to overcome the manufacturers' fears." Show that a market exists for your product—perhaps by selling some of your chairs first. Also, know something about the business. "The inventor has to understand what's a good product for a manufacturer. Will it be made in Malaysia? How will it pack? Will it fit on a pallet?" Another tip from Moyer: small manufacturers with less to lose may be less skittish.**

**Bob Bennett, who invented MicroFridge, a combination microwave-freezer-refrigerator (see "The Small Chill," February 1990), got all the manufacturers he spoke with—including Sanyo and Samsung—to sign such agreements. But he gave them good reasons to do so. Before contacting the manufacturers, Bennett developed a plan for selling the product through colleges and hotels, and paid for a customer survey that proved his product had a market. Your survey will carry more weight if you have a third party design and conduct it. But Bennett says you can design and conduct one yourself. For help, we suggest *Do-It-Yourself Marketing Research*, by George Edward Breen and Albert B. Blankenship (McGraw-Hill, 1989, 800-262-4729).**

**"I was petrified that someone would steal my idea," says Bennett, "but the whole business of stolen ideas is really overblown. Ideas are easy. What really makes a company happen is an individual with the drive and energy to do it."**

***— Michael P. Cronin***

## THE AMERICAN DREAM

# BUSINESS FOR SALE — SEATTLE BOOKSTORE

**THE BUSINESS** The ideal bookstore: independent, established, and in a prime location—a mile from the University of Washington, on a bohemian street with heavy foot traffic. No mass-market fluff here: the 1,260-square-foot store attracts a counterculture crowd covetous of its poetry volumes (the second-largest selection in Seattle).

**FINANCIAL SUMMARY**

| | 1989 | 1990 | 1991* |
|---|---|---|---|
| Gross revenues | $83,983 | $94,597 | $100,257 |
| Pretax profit | ($9,230) | ($3,447) | $7,000 |

*projected

**PRICE** $62,000

**OUTLOOK** Last year Americans purchased more than $15 billion worth of books. And Seattle is a healthy yet competitive market—the 10th largest in the nation. But making money from selling books *anywhere* is notoriously difficult. Net income before taxes typically runs a slim 3% of sales. Independents relinquish as much as 60% of their revenues to publishers. But success can be had. The key? Keep that inventory turning and overhead costs low.

**PRICE RATIONALE** The bulk of what you're buying is inventory—5,000 titles with a wholesale value of $33,000. Remaining assets—a lease through 1994, furniture, fixtures—add up to $22,000. Valuing bookstores is as idiosyncratic as the volumes stocked. But using one industry rule of thumb—four times projected profits, plus asset value—this store looks downright reasonable.

**PROS** This shop has generated goodwill in its neighborhood of devout literati. There's healthy potential, too: currently the inventory turns twice a year; if you have the willpower to shrink it by parting with slow-moving (albeit precious) titles, and turn it once more (industry average is three times a year), you can increase revenues by 33%. New markets to explore: mail order, supplying local schools.

**CONS** Running a successful bookstore is more mystery than romance. The store struggles to regain the popularity it enjoyed in the early 1970s. Sales volume has gradually increased and operation costs have decreased, but profits have yet to appear. And independence may give you control, but it doesn't give you a chain-store buyer's clout, nor the security of knowing that one store closed doesn't spell bankruptcy. —*Alessandra Bianchi*

***Inc.* has no stake in the sale of the business featured.**

*The magazine cannot confirm the accuracy of financial or other information offered by the seller. Inquiries should be directed to John Marshall, (206) 633-0811.*

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AUGUST 1991 VOL. 13 NO. 8

ILLUSTRATION: TIM LEWIS

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*AND MORE!*

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**COMPANY PROFILE:** How to Grow a Company and Have a Real Life, Too

SEAT-OF-THE-PANTS SUCCESS: NICHOLAS GRAHAM, CEO OF JOE BOXER CORP.

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*(Photograph: Culver Pictures)*

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COVER PHOTOGRAPH
by MICHAEL GRECCO,
OUTLINE

# Hands On

## SALES & MARKETING

*Menna has helped Viteq pull bigger sales out of its hat.*

**SALES TRAINING**

### Send In the Clowns

AS ANY COMPANY THAT USES DISTRIBUTORS KNOWS, it's one thing to get them to take on your line and another to get them to sell it. Distributors' sales reps typically have many products to pitch to retailers, and as important as your line may be to you, it's just one of many to them.

Part of what determines how much of their attention your products command is how well the reps know them—which means not just what you've taught them but how much they remember. "That," says Anita Creasi, director of channel marketing at Viteq Corp., a Lanham, Md., maker of uninterruptible power supplies for computers, "is what I mean by 'mind share.' "

To help train one distributor's telephone-sales reps, Creasi hired a magician, Lisa Menna, who was paid not just to entertain but to help teach.

The 50-minute presentation opened in a darkened room. Menna materialized from a puff of smoke and did a couple *(Continued on page 121)*

▼

Lisa Menna's company, Magic Touch, is in San Francisco at 415-399-1133. For other sleight-of-hand artists, try these agencies: Bob Snodell Associates, Chicago, 708-388-1539; Magical Productions, Riva, Md., 301-721-0515; and Corporate Shuffle, Houston, 713-977-0026.

**DISTRIBUTION**

### Using an OEM to Build Sales

WAYNE HELLMAN, CEO of Venture Lighting International, in Solon, Ohio, a maker of metal-halide light bulbs, needed to distribute his products. But an army of salespeople would be too costly; stores dealt only with major bulb manufacturers; and Venture light bulbs couldn't compete on price. So Hellman opted to distribute through original equipment manufacturers (OEMs)—in his product's case, the approximately 60 U.S. companies that make light fixtures. By using the OEMs, Venture can reach 7,000 electrical distributors through the 60 fixture makers' sales forces, who call on those accounts regularly.

Before Hellman entered the scene, light bulbs were a commodity, something fixture makers sold their fixtures with or without upon installation. Hellman had to convince them that owning a new application for the metal-halide technology was valuable. So he, along with a team of engineers and salespeople, held brainstorming sessions with the fixture makers. Bulbs were engineered from the ideas generated, and the OEMs designed fixtures to house them. Venture still uses that technique to develop new applications, and *it foots the research-and-development bill for each new bulb.*

Venture also private-labels its bulbs for two of the three major bulb manufacturers, which own more than half the market and have wide distribution systems. Hellman estimates that every 10 years he'll sell six replacement bulbs for each fixture sold by an OEM. Today 30% of Venture's $30 million in sales comes through OEMs, and Venture holds almost 25% of the metal-halide-bulb market. —***Teri Lammers***

**IN THIS SECTION**

**SEND IN THE CLOWNS**
*Getting your sales reps' attention*

**USING AN OEM TO BUILD SALES**
*Forge better relationships*

**RESOURCES: USED TRADE-SHOW BOOTHS**

**SELLING TO GRAY AMERICANS**
*Consumers aren't getting any younger*

**CALL A NEIGHBOR**
*Use your customers to sell*

**Edited by**
**Tom Richman**

PHOTOGRAPH WILLIAM MERCER McLEOD

*(SALES TRAINING, from page 119)*

of tricks to set up Creasi's entrance. Then they alternated: Creasi presented the lecture and the usual transparencies; Menna performed stunts to illustrate Creasi's points. They'd worked out their routine during several weeks of phone calls and rehearsed it the night before.

"Left-brain and right-brain access are different," says Menna. "You hear something at a technical event, and it goes into a storage space in the math side of your head. The next time somebody asks you about TWX-transfer twisted pair, you go to that storage space and try to retrieve it. But if you have a second note card, filed in the creative side of your brain, that says, 'Hey, I understand twisted pair. That was when that girl did the trick with the plastic bags, making herself into a twisty'—then you have access to both sides of your brain for the same information."

Whether you use a magician, a comedian, an artist, or any other performer, the idea is to put the information across in more than one way. " 'Sesame Street' is more interesting to kids than Miss Crabtree is," says Menna, "because it offers such a variety of input—which is kind of what I do."

Creasi's a believer. "I know it worked," she says, "because the reps say they remember—and they're selling the product."

*—T. R.*

RESOURCES

## *Used Trade-Show Booths*

ONCE, USING SOMEONE else's trade-show exhibit was as tacky as donning a stranger's wedding dress. Not now: thrifty companies are saving by buying secondhand exhibits and remodeling them.

"Used exhibits are coming into their own," says Lee Knight, publisher and editor of *Exhibitor* magazine. The best way to check one out is to see it set up. Or ask vendors for photos and a list of clients. Here are two companies that specialize in recycled exhibits:

- **Exhibit Emporium**, Newark, Calif., 800-541-9100. Showrooms in Newark, Calif., and Marlborough, Mass. Sample listing: 30-by-30-foot display with stage. Original cost: $126,000. Selling price: $27,500. Option to rent.
- **The Exhibit Registry**, Huntington Beach, Calif., 800-444-9484. Has agents around the country. Sample listing: 20-by-20-foot island with four workstations. Original cost: $30,000. Selling price: $14,200.

Also, contact manufacturers of custom exhibits in your area. Many have used properties that are in good shape. Giltspur, based in Itasca, Ill. (800-727-0069), has 16 storage facilities in cities such as Chicago, Pittsburgh, Atlanta, Phoenix, Los Angeles, Toronto, and Washington, D.C. Exhibitgroup, in Chicago (800-424-6224), has offices in areas such as Dallas, Cincinnati, New York City, and San Francisco.

*Exhibitor* (507-289-6556) holds workshops on buying and selling used exhibits. Cost: $85.

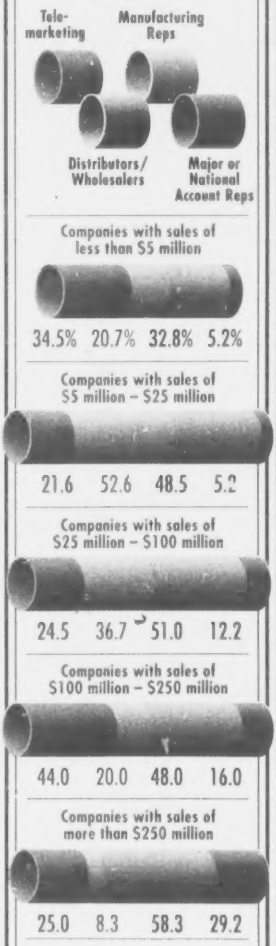
*—Susan Greco*

SALES

## *Alternatives to a Direct-Sales Force*

*Even small companies have options — especially once they pass the $5-million mark. Middling and mammoth businesses alike make heavy use of distributors and wholesalers as another way to reach the marketplace.*

**Percentage using . . .**



Source: "Twenty-sixth Survey of Sales Force Compensation," a survey of 250 companies around the United States, 72% with sales less than $50 million. The Dartnell Corp., Chicago, 1990.

DEMOGRAPHICS

## *Selling to Gray Americans*

WHATEVER CONSUMER product or service your business sells, it's probably being bought by customers who are older than those you sold to 10 years ago. Jeff Ostroff, vice-president of The Data Group, in Plymouth Meeting, Pa., and director of its PrimeLife Marketing division, reminds marketers that the typical American consumer isn't getting any younger. Between 1990 and 2000, the 45-and-older population of the United States will have grown by 18 million people, and the under-45 population will have grown by only 5,000.

**OSTROFF:** Stop thinking of the over-50 population the way you remember your grandmother 30 years ago. Stop thinking about *ages* and think instead about *stages* of life. Stages are related to age, but they don't correspond precisely. For instance, people preparing to retire have certain needs—for financial-planning services or for different kinds of insurance or housing.

People are most likely to reach another stage—grandparenting—in their fifties, which provides a multibillion-dollar opportunity for businesses that understand that grandparents spend money differently on kids than parents do. Our national survey on grandparents showed they tend to place a high value on purchases they see as part of passing on to the youngsters some of their own knowledge and experience.

*(Continued on next page)*

CHART: ROSS CULBERT LAVERLY & RUSSMAN INC., NEW YORK

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*(DEMOGRAPHICS, from page 121)*

**INC.:** *What will the over-50 population look for in products?*

**OSTROFF:** Empty-nesters of any age will look for products in smaller packages. Retirees of any age have more time and will look for ways to fill it—going back to school, traveling, or buying a franchise.

**INC.:** *Are we going to start seeing a lot of ads pitched to older people?*

**OSTROFF:** Not from smart advertisers. You *can* say in an ad that the people who will really benefit from this product are those who have a lot of experience in whatever. But if your ad talks about a product being for older people "because now that you're older, you have these new limitations," that isn't likely to be well received.

▼ ▼ ▼ ▼ ▼

Jeff Ostroff's book (above), *Successful Marketing to the 50+ Consumer* (Prentice-Hall, 1989), details business opportunities and where they will be, shows how companies can market to aging consumers, and also has appendices listing agencies, organizations, and periodicals that can be great information sources.

**INC.:** *What about retail self-service?*

**OSTROFF:** Hard question, because what people expect for service depends partly on their age and partly on what they're used to. For example, the automated-bank-teller machines that really bother many of today's older adults will be less bothersome to aging baby boomers. They're used to them, just as they're used to pumping their own gas.

But while we won't see the end of self-service supermarkets, we will see more emphasis on personal service. Most older consumers feel they've contributed a lot to society, so they expect to be treated respectfully and catered to. That will be especially true of the aging baby boomers, who've been catered to all their lives.

**INC.:** *So, figuring out what an aging population wants might be tricky?*

**OSTROFF:** One thing businesses, especially medium-size to small businesses, might do to help themselves stay on top of these changes is to get 50-plus consumers involved in their marketing. Employ them in sales or customer-service positions and get their feedback and advice. *—T. R.*

**PROMOTIONS**

## *Call a Neighbor*

GARDEN WAY, THE TROY, N.Y., MANUFACTURER OF HIGH-END Troy-Bilt rototillers and other power equipment, reaps more than one-third of its sales from catalog and print-advertising orders. But some potential buyers who don't have a Troy-Bilt retailer nearby still want to test-drive the machines. They can. Garden Way will put them in touch with a volunteer neighbor who already owns one of the company's products.

Troy-Bilt owners, apparently a cultish lot, like to brag about their toys, according to Ned Van Woert, senior vice-president for strategic planning. The company recruits them, at the time of their purchase, into its so-called Good Neighbor program by offering them a special deal on their purchase. Garden Way then lists them in the directory of the Good Neighbor program.

Of course, neither Garden Way nor any other company can control what a customer is going to tell prospects about its products. So before you recruit customers as unofficial sales aides, you'd better make sure they're ecstatic over whatever you've sold them.

*—T. R.*

PHOTOGRAPH: G. PAUL HAYNES

# MANAGING PEOPLE

BROADCAST
YORK

*Rosenbaum: Custom-tailored jobs raise productivity.*

MOTIVATION

## *Etch-a-Sketch Job Descriptions*

AFTER STARTING THEIR OWN COMPANY, OURTOWN Television Productions, right out of college, Steven Rosenbaum and his partner couldn't offer prospective employees the kind of salaries that local stations paid. So OurTown offered something else: jobs custom-tailored to workers' tastes. As a result, staffers made less money, but most of them loved their jobs.

Rosenbaum's accommodating approach is still manifest in almost every one of the 18 positions at his Saratoga Springs, N.Y., company. OurTown's story coordinator, for example, is also the staff welder because he told Rosenbaum he loved welding. "Steve Rosenbaum is interested in making people like working here, even if it means extending their job description," says Steve Mendes, the story coordinator/welder. "Letting me weld makes me a happier person here."

Rosenbaum spends a lot of time finding out what employees love and hate about their jobs and trying to eliminate or reduce the distasteful responsibilities. Usually that means identifying someone else in the company who's interested in the task.

Still, all employees have to do something they're not particularly fond of. And creating a perfectly tailored job for a new hire can sow dissatisfaction among employees. Rosenbaum waived a company policy and allowed a new producer-reporter to do her own voice-over recording on her stories. Before doing so,

*(Continued on next page)*

LEGAL BRIEFS

## *Strictly Confidential*

SAFEGUARDING YOUR company's innermost secrets seems a simple matter of getting employees to sign a nondisclosure agreement. But it's easy to make a misstep. And because the courts in many states are inclined to protect people's rights to pursue their own business opportunities, they may bend over backward to nullify trade-secret provisions, says Eric J. Wallach, a litigation partner at Rosenman & Colin, in New York City.

Trade-secret suits, both actual and threatened, are pervasive in technologically sensitive industries, such as software, as well as nontechnological industries, such as retail discounters. Here's how to make a trade-secret provision airtight:

**1. Define as narrowly as possible what you want to protect.** Whether it's proprietary customers, manufacturing processes, software, or sales formulas, make sure the information cannot be obtained through publicly available sources. If your agreement lumps together the truly proprietary with the merely ordinary, a court may view it as excessively limiting to a former employee and dismiss the whole agreement.

**2. Limit the number of people who sign it.** While it may seem the safest route is to have all employees pledge their secrecy, it actually makes a trade agreement less enforceable. Ask for signatures from the people you're really concerned about. "If you do it in boilerplate fashion, the court may say you, the employer, clearly haven't thought through where the sensitivity is," says Wallach.

**3. Employees should enter into the agreement upon employment.** The key ingredient here is that the employee must get something out of a pact. If an employer tries to impose a trade-secret provision after an employee is on board, and gives the employee nothing in return, Wallach says, the courts will strike down the provision. But asking an employee to sign an agreement when she's promoted or given a raise might work. *—E. E. S.*

### IN THIS SECTION

ETCH-A-SKETCH JOB DESCRIPTIONS
*Keeping employees satisfied*

STRICTLY CONFIDENTIAL
*Making nondisclosure agreements work*

SCOUT'S HONOR?
*Try* Inc.*'s own honesty test*

RESOURCES: MANAGEMENT SIMULATIONS

THE SCHOOL OF HARD KNOCKS
*Management-simulation programs*

**Edited by Ellyn E. Spragins**

PHOTOGRAPH: JOHN SEAKWOOD

*(MOTIVATION, from page 125)*

however, Rosenbaum first discussed the idea with the anchorman, who normally handles such work. The anchor OK'd it—but then three other reporters wanted to do their own voice-overs, as well. Rosenbaum asked them to come back to him in six months if they still felt strongly about it. "The easy solution would be to make an ironclad rule with no exceptions," he says. "But I look at it as having three people on staff who would like to build their skill level."

Granted, some people can get lost in this kind of environment, but the payoff for the headaches is that Rosenbaum retains many employees who could work elsewhere for better pay. He says productivity is also higher. He estimates OurTown produces TV programs with one-half to two-thirds the staff other production companies require. OurTown's revenues have spurted from $600,000 in 1989 to an estimated $1.1 million for 1991. The best part: his flexibility costs him nothing but his time and interest in keeping employees happy. Can he continue doing that as his company grows? He's working on it. ***—E. E. S.***

---

**RESOURCES**

## *Management Simulations*

FOR SMALL-COMPANY managers who want to test their management skills and learn from the experience as well as from the feedback of participants and trainers (see "Training," below) the MSP Institute (212-982-4929) suggests two of its management simulations. The first, Northward Arts Co., is itself small, with six managers and 20 employees. The other, Food Corp., is a larger company but focuses on growth issues. The Institute's programs cost about $1,000 a person.

At The Center for Creative Leadership (919-545-2800), which offers three different simulations out of its Greensboro, N.C., headquarters, The Looking Glass simulation is offered as part of a five-day program for $2,900. Though The Looking Glass is modeled after a large organization, the center says it's an appropriate simulation for small-company managers who need to be effective in influencing and communicating with people. The center also offers simulations at its offices and through licensees around the world. ***—E. E. S.***

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**EMPLOYEE TESTING**

## *Scout's Honor?*

IN LIEU OF STRAPPING polygraph sensors on potential employees, which is now under most circumstances illegal, some companies are administering pencil-and-paper quizzes called honesty tests. We thought the most interesting way to tell you about these integrity exams would be to conduct one with you. We'd pose questions, you'd answer, and the test publishers would grade the results. Unfortunately, being an honesty-test publisher doesn't mean you have to be particularly hon . . . shall we say, forthcoming about test answers. The publishers nixed the idea.

So instead, we'll conduct ground-breaking research here. You answer a few questions we've gleaned from some actual honesty tests, and we'll tell you how you compare with other *Inc.* readers. So click on that 600-watt light bulb and tell us everything . . .

AGREE, DISAGREE, OR UNDECIDED:

**1. It's OK to take something from a company that's making too much profit.**

**2. Stealing is just a way of getting your fair share.**

**3. If I'm passed over for a promotion, it's OK to take things from work to get back at the company.**

**4. When a store overcharges its customers, it's OK to change price tags on merchandise.**

YES OR NO:

**5. Do you always tell the truth?**

**6. Did you ever think about committing a burglary?**

**7. If you could get into a movie without paying and not get caught, would you do it?**

**8. Is it OK to get around the law if you don't actually break it?**

* * *

**TRAINING**

## *The School of Hard Knocks—Condensed*

CALL IT THE *READER'S Digest* version of real life in the business world. Instead of spending years making mistakes in establishing and growing your company, you can enroll in a management-simulation program to accelerate your learning. In a simulation, a small group of people—usually owners or top managers of a company—run a pretend company for a few days while being observed by professional trainers.

The best-known simulation is The Looking Glass, developed by the Center for Creative Leadership, in Greensboro, N.C. There are no classrooms, lectures, or theories during the one-day simulation. Instead, the trainee executives, who may or may not know one another beforehand, are assigned a position and given in-baskets planted with extensive information. The players can interact freely, organize themselves however they like, and make any decisions they choose.

A lengthy reflection and

*(Continued on page 128)*

ILLUSTRATION: HAL MAYFORTH

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*(TRAINING, from page 126)*

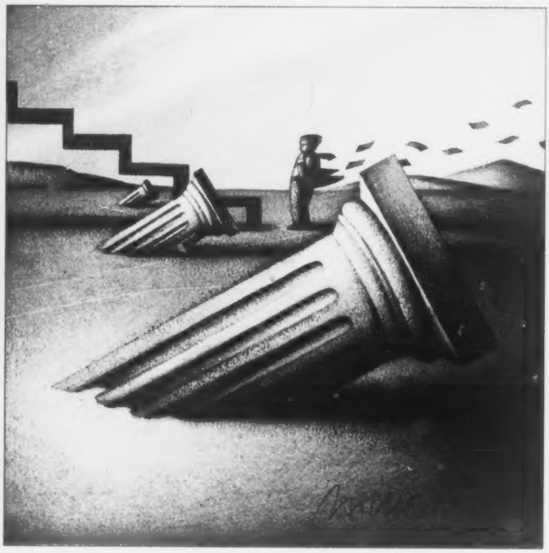
discussion period follows the simulation. The trainers give feedback on the strategic choices the role players made for the company, describing, for example, other courses of action they might have taken. The analysis is complemented by players' input on one another's personal style. That's often the most eye-opening part of a simulation experience. "It doesn't happen very often in the context of day-to-day business that you'll go up to someone and say, 'I'd like you to tell me the things I do that you find helpful and those you wish I'd change,' " says Ron Clark, a management consultant in Norwalk, Conn., who attended his first simulation five years ago. There, Clark discovered he wasn't conveying his vision clearly to the people he worked with. "Most feedback in companies is goal-related. It doesn't look at the behavior that helped you achieve those goals or got in the way of accomplishing them."

New York City–based MSP Institute, which has also developed simulation models, finds certain groups of characteristics are particularly observable—and therefore trainable—through simulation:

- **General managerial skills:** delegating, organizing, and planning.
- **Group dynamics:** autocratic versus participative; open to information sharing or closed; striving to achieve versus just squeaking by.
- **Power:** how it is seized, used, magnified.
- **Strategic skills:** acting as an entrepreneurial force, finding and overcoming threats, and dealing with adversity.

Remember, while simulations are designed to be like the real world, they're not a perfect imitation. What's more, the quality of and knowledge gained during any simulation depends greatly upon who the other participants are. Still, says Clark, "it's one of the few things you can do to get feedback. When you're out there on your own, you never know exactly how you're coming across." *—E. E. S.*

# BANKING & CAPITAL



### REGULATION

## When the Feds Take Over

SINCE 1988 MORE THAN 635 INSTITUTIONS INSURED by the Federal Deposit Insurance Corp. (FDIC) have been shut down, sending thousands of borrowers into a frenzy. Forget panic—if you really want to weather this storm, here are some first steps to take:

- **Study all your loan agreements to verify compliance.** The goal of the FDIC once its people arrive isn't to be your banker but to get cashed out as rapidly as possible. "Your objective," says Ken Smith, president of Massachusetts Business Development, in Boston, "especially if you're a small borrower, is to ensure that it happens on your terms." Once regulators are in the bank, plan on being held accountable for every letter of your loan agreements—even fine print your former lending officer shrugged off. Check, too, to see that the loans are actually written the way you think they are. Many long-term mortgages, offers John Troop, a business consultant in Tulsa, are in fact written as five-year notes with balloon payments at the end.
- **Get a good lawyer.** As long as you're in compliance, neither the FDIC nor the bank that might buy your loans has a legal right to alter the terms. On term loans, your best strategy may be to sit tight. Working-capital loans, however, are more precarious. Don't be surprised if regulators look for ways to wind down credit lines fast—going so far as to seize deposits and collateral to pay off debts. Since hardball tactics like those can impair your ability to meet basic obligations (such as payroll) and can raise liability questions, get experienced legal advice right away to sort out what you have to do

*(Continued on next page)*

### LETTERS OF CREDIT

## Looking over the Banker's Shoulder

IF YOU'RE EXPORTING products overseas, odds are, you're relying on letters of credit through which the customer's bank ensures that the invoice will be paid once the terms of the sale are met. If you want to minimize the transaction costs and psychic toll, you'll have to stay on top of the game yourself. Here are three things to keep in mind:

- **Even tiny discrepancies can gum up the works.** The most common discrepancy, says Virginia Rehberg of International Transactions, an export-finance consulting firm in Boston, is shipping later than you specify. It's also the most serious, because unlike other snags that might be corrected with a call to the negotiating bank, a late ship date requires the overseas buyer's bank to issue an amendment. Buyers will readily ask their banks to do this, but for a price; if a shipment is late and the buyer refuses to waive the discrepancy, that buyer might try to get you to discount the invoice by 10% or more. Be conservative about the ship date and check all documents for errors.
- **A "sight" letter of credit will help you get paid faster.** Clever overseas buyers often slip in clauses saying that payment will not occur for 60 to 180 days after the banker verifies that all the terms have been met. Don't let them. To speed up your collection, ask for a sight letter of credit; with it, you can usually be paid within three to five days of the time the banker "sights" all the paperwork required by the letter of credit.
- **Bank fees can be shifted to customers.** Banks charge different fees for different services. Normally, you pay the fees at your bank; your customer pays his. But if you make them part of the up-front negotiation, you might be able to get the buyer to pick up everything. If you can't, ask the customer for a freely negotiable letter of credit that won't obligate you to buy services from a specific bank; then shop around for the lowest fees. ***—Teri Lammers***

### IN THIS SECTION

WHEN THE FEDS TAKE OVER
*Protect yourself when your bank closes*

LOOKING OVER THE BANKER'S SHOULDER
*Using letters of credit*

RESOURCE: THEY FIRE CEOS, DON'T THEY?

BANK WATCHING
*Rating the rating services*

STRIKING A BETTER DEAL
*A noncash acquisition sweetener*

**Edited by Bruce G. Posner**

ILLUSTRATION: ADAM NIKLEWICZ

*(REGULATION, from page 131)*

legally from what the regulators say you have to do.

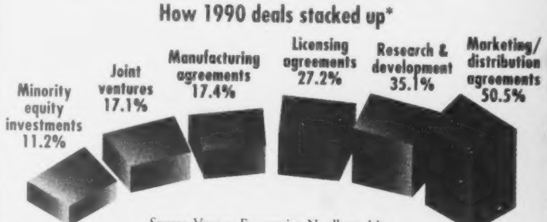
- **Set up a new checking account at another bank.** Some credit lines have terms that prohibit a borrower from diverting cash collections into accounts at other banks. If yours doesn't, begin moving money to another bank at once. Otherwise, you're liable to run out of cash, and you may not be able to meet payroll or pay suppliers.
- **Get to work finding a new credit source.** If you're lucky, you'll be able to get a little breathing room from the FDIC or the new bank that's entered the scene. Don't count on much. "Within a matter of days, you should have a complete package of information about your company to bring to other sources," advises Troop. But what if no one snaps at the business? Will the new guys really pull the plug? They might, Smith says, "but if you can demonstrate that you're making a good-faith effort, and you keep communicating the steps you're taking to find other sources of money, they're apt to work with you. In some cases, I've even seen them agree to term out working-capital loans by turning them from demand loans into short-term loans. But those are the exceptions."

—*B. G. P.*

STRATEGIC ALLIANCES

## The Shape of the Deals

*Now that venture capital and other sources of money are hard to shake loose, strategic alliances have become an accepted way for small companies to leverage resources. "They're no longer a fad," says Robert E. Mast, a vice-president of Venture Economics, which publishes* Corporate Venturing News. *Contrary to popular perception, relatively few of these deals involve outright equity. Most are built around some other interest.*



Source: Venture Economics, Needham, Mass.

*Based on analysis of 1,470 alliances; does not add up to 100% because of multiple responses.

RESOURCE

## They Fire CEOs, Don't They?

MOST BOOKS ABOUT venture capital are incredibly clinical. They cover topics such as pricing and the composition of boards, with barely a nod to the skirmishes that sometimes break out between company founders and their venture investors. In *Nothing Ventured* (Harper Business, 1990), Robert J. Kunze, a veteran San Francisco venture capitalist, portrays the venture game with all its blood and tension. He wrote it, he tells us, "to demystify the process."

Kunze is at his best when telling dramatic stories about real companies. In one, a business becomes embroiled in a struggle between its stubborn founder, who wants to have his own production plant, and investors, who want him to use the money for other things. In another, we learn about an industrial-instrument company that gets stymied by a patent suit yet somehow manages to hang on by its fingernails—for two years. In both cases, Kunze describes his role in getting the founding CEOs ousted.

Firings over breakfast, feelings of betrayal: not all the tales Kunze tells are uplifting. But if you want to see venture capital for what it is and what it's not, Kunze illuminates it well.

—*B. G. P.*

*Kunze demystifies venture capital.*

DATA SERVICES

## Bank Watching

HOW DO YOU KNOW when your bank is slipping toward the brink? If you want to be vigilant, consider ordering information from one of the many services that specialize in bank evaluation. Listed below are some oriented toward corporate clients:

- **Cates Consulting Analysts**, Washington, D.C., 202-659-8300. Drawing on federal bank data, Cates tracks about 2,000 of the country's 12,000 or so banks. Its quarterly reports evaluate earnings, liquidity, asset quality, and capital adequacy. For $110 a year per bank (less for information on more than 10 banks), you get a report with a one- to two-page summary, the quarterlies, and phone access to the firm's analysts. For $50 you get a one-shot summary.
- **Federal Financial Institutions Examination Council**, Washington, D.C., 202-357-0177. If you prefer your data straight (without the commentary), you can order one of the federal government's Uniform Bank Performance Reports. A 13-page report on every federally insured bank is generated by computer every quarter. The price is $40 per bank. For an additional $25, you'll get a guide to interpreting the reports; for another $60 you can get a report that compares your bank with its peers.
- **Thomson BankWatch**, New York City, 212-510-0300. Thomson's premium service, which is available for the 450 biggest banks worldwide, costs $100 per U.S. bank and $200 per international bank per year. BankWatch gives you quarterly reports as well as a direct line to trained analysts. If you're interested in one of the thousands of smaller institutions, Thomson has a more basic service. For $50 per bank, you'll receive a two-page synopsis of an

PHOTOGRAPH: JOHN SEAKWOOD. CHART: ROSS CULBERT LAVERLY & RUSSMAN INC., NEW YORK

institution's ratios and peer comparisons.

- **Veribanc**, Wakefield, Mass., 617-245-8370. Veribanc's computers spit out color-coded reports on any bank, savings and loan, or credit union within days of the release of quarterly federal data, but the analysis is sketchy. For $10 you can get a rating over the phone ($3 for additional banks). A 50-page research report costs $45 per bank. For $110 Veribanc offers a report that rates every bank in a single state.
- **Weiss Research**, West Palm Beach, Fla., 407-684-8100. Priding itself on being more conservative than other rating services, Weiss sets very stiff "safety" standards that many banks don't meet. Its six-page reports cost $45 each; phone ratings are available for $15.

*—Researched by Chris Caggiano*

ACQUISITIONS

## *Striking a Better Deal*

**If you're angling to buy a business but can't meet the seller's price, there may be a way to structure a transaction that makes everyone happy. Consider using a "covenant not to compete." Here's how it works:**

**Say the seller wants a total of $5 million when he gets ready to sell his business. Offer him $4 million for the business and, in addition, $1 million in a covenant not to compete (a legal agreement that keeps him from selling the same products in the same market area for a specified number of years). The advantage is that the covenant is a deductible expense. (Typically, it can be amortized over five years.) If you want further deductions, consider giving the seller a multiyear consulting contract for services rendered, the cost of which can be treated as a deductible expense.**

**"In the wake of the tax reforms of 1986, these are among the most attractive tools left for taking a write-off on the money paid out for buying a business," says R. Paul Sprague, CEO of Warwick Group, a New York City investment-banking firm. *—B. G. P.***

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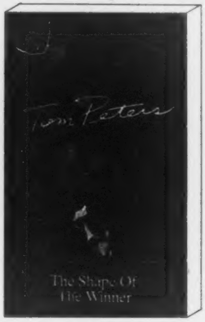

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He electrified the business community as co-author of *A Passion For Customers*. He started a management revolution in *Thriving On Chaos*. Now Tom Peters presents his unique "focus on the customer" message developed specifically for Inc. readers.

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VIDEOS

# FINANCIAL STRATEGIES

*Williams uses key-man insurance to protect her company.*

**INSURANCE**

## *Protecting Against Executive Losses*

KATHLEEN WILLIAMS DIDN'T THINK TWICE ABOUT key-man insurance when she cofounded Business Investigations, in Plano, Tex., nearly six years ago. "I didn't have the money to think about it," she recalls.

But a couple of years later, when her company was growing "at a monstrous rate" and she approached bankers for a line of credit, they provided her with a list of key employees she needed to insure. In complying with their requirements, she says, "I started thinking about how to use key-man insurance to protect our own needs. Now it's not just a question of being able to check off the right box on a loan application. I wouldn't do business without it."

To prepare for her annual board of directors meeting, she conducts her own informal analysis of the value to the company of each of her 100-plus employees. "There are some people my bankers don't require me to insure who are invaluable to our growth and profitability. So we buy key-man insurance on them as well," she says. In all, the company

*(Continued on next page)*

**ESTATE PLANNING**

## *When Living Trusts Make Sense*

ODDS ARE, IF YOU'VE thought about estate planning, someone has suggested you set up a living trust. It's a way of avoiding the time and cost of probate, since any assets that have been transferred into a living trust during one's lifetime are passed along automatically, after the donor's death, to his or her designated beneficiaries without any of the hassles of probate court. And there's no loss of control, since donors can name themselves as trustees while retaining the right to revoke or cancel the trust at any time.

Despite the advantages, Steven Enright, a River Vale, N.J., financial adviser, warns that living trusts are often misused.

"If you and your spouse own assets jointly and you're planning to leave your assets to your spouse, there's no need for one, since such assets don't pass through probate," he says. "Or if you put some, but not all, of your assets in the living trust, the benefit is limited, since the rest of the assets will have to pass through probate."

But living trusts may be helpful when estates of significant size (at least $1.2 million) are passed between generations. "The trusts won't produce any estate-tax savings, but they might save time and complications, which could be valuable if the estate includes shares in a business," says Enright. In such cases, coordinate the design of your living trust with the rest of your estate plan and expect to pay an extra $500 to $1,000 in legal fees.

—*J. A. F.*

**RESOURCES**

## *Cash-Flow Software*

**Tough economic times bring out the need for well-monitored cash flow, and the products to help. Two worth considering:**

- **Up Your Cash Flow. An appealing software package whose best feature is a forecasting element that can alert CEOs to potential bottom-line effects of changes in the economy. It's available for PC compatibles for $99.95 from Granville Publications Software, at 800-873-7789.**
- **Forest & Trees. A pricier, more comprehensive software package ($495). It offers the ability to customize the screen with views of business data, updating various financial aspects. Available for PC compatibles from Channel Computing, at 800-289-0053.**

**—*J. A. F.***

### IN THIS SECTION

PROTECTING AGAINST EXECUTIVE LOSSES
*Using key-man insurance*

RESOURCES: CASH-FLOW SOFTWARE

WHEN LIVING TRUSTS MAKE SENSE
*The dos and don'ts*

HOW TO DESIGN AN EXPORT INVOICE
*Advice from a veteran exporter*

PROFIT SHARING THAT WORKS
*All are equal in the profit pool*

**Edited by**
**Jill Andresky Fraser**

PHOTOGRAPH: DANNY TURNER

*(INSURANCE, from page 135)*

carries policies on 6 key employees, including Williams.

In deciding whom to cover, Williams considers two financial issues:

**1. Replacement cost.** "This may or may not be close to a person's actual salary," Williams says. "To come up with a realistic number, contemplate a worst-case scenario where you had to find and pay someone else who could actually fulfill all this person's functions within the company."

**2. Possible revenue losses.** "You can't look just at the salary you're paying a person. She may earn $50,000, but if something happened to her, the company might lose sales of $300,000," she says. So even though the bank doesn't require it, she buys insurance on her executive vice-president of marketing and sales: "She's a competitive advantage for us. I don't care if the bank knows it or not.

"In a growing company, every person's value and contribution is constantly changing," says Williams, who evaluates the payout levels of each key-man policy annually. "With some people, you need to increase the insurance levels as sales grow, whereas with others, as their departments grow and they share corporate responsibilities, you may want to reduce coverage levels." Since policies change frequently, consider using annually purchased term life policies for key-man coverage. Rates vary according to a person's age and health but are generally quite affordable.

A corporate valuation can help quantify how much key-man insurance you'd need to buy out an executive's stock at today's market value. But when purchasing coverage Williams prefers to rely on her own instincts about each person's worth to her company: "If you know your executives, you can make a pretty good guess about how their loss would affect the business financially—either in jobs you couldn't perform or sales you wouldn't make." *—J. A. F.*

INTERNATIONAL BUSINESS

## *How to Design an Export Invoice*

ANYONE INVOLVED IN the export market knows sales invoices can result in endless collection problems unless they're designed to comply with business practices in the customer's country. Michael Plumley, CEO of Plumley Cos., in Paris, Tenn., a manufacturer of rubber goods for the automobile industry, knows that all too well. His goal is to design a sales invoice that will work with 80% to 90% of the export orders he ships to Japan, Germany, France, Australia, Canada, Mexico, and Great Britain.

Plumley believes his only chance of success is to tap into the hands-on knowledge of his employees from various departments, all of whom have encountered the unique characteristics of each export market. Among the employees he consults:

- **Customer-service and shipping representatives.** "Duty regulations differ in every country," Plumley says. "If a company wants to keep costs down, it has to figure out how to ship and invoice goods so it complies with those different rules." Case in point: Germany. "If we ship different products at the same time but list them on different manifests, we have to pay higher duties than if they were consolidated on a single manifest."
- **Credit manager.** There aren't any universal paperwork standards, even within particular countries. The challenge is to find out what foreign customers need from invoices.
- **Sales manager.** Every salesperson involved in export is a resource for tips on foreign customers' invoicing needs. "If we know about needs in advance, we can address them when we send out the invoice, and we won't have to wait until problems develop on the collection end." *—J. A. F.*

ADVISERS

## *How Do You Use Your CPA?*

IN AN INFORMAL SURVEY OF COMPANIES WITH SALES BETWEEN $4 MILLION AND $20 MILLION, *Inc.* found that CPAs provide a wide—and sometimes unexpected—range of services to entrepreneurs. One surprise: of the group we contacted, more than 85% of the CEOs preferred working with smaller regional accounting firms, rather than the Big Six, because of lower costs and what they perceived as better personal attention.

| Company | How often does CEO consult CPA? | What's CEO looking for in a CPA? | How often has company switched CPAs? |
|---|---|---|---|
| **Coastal Production Service**<br>Operates oil & gas platforms | Once a month | Audit proficiency, so CEO chose a firm that employs a former IRS auditor | Twice |
| **UniLink Software**<br>Software developer | Weekly | Computer literacy, since CEO specially tailors his cash-flow and other financial statements | Never |
| **Pro-Tech Industries**<br>Manufacturer of truck parts | Quarterly | Ability to analyze numbers quickly, especially during expansion activities | Never |
| **Vance International**<br>Protective services | Quarterly | Red-flag warnings on issues like insurance costs or financial ratios | Twice |
| **Roadshow Services**<br>Theatrical-transportation management | Once every two months | "Reality checks" to keep fast-growing company's profit and other margins in line | Twice |

*—Researched by Susan Greco and Christopher Caggiano*

INCENTIVES

## *Profit Sharing That Works*

MANY CEOS FEAR THAT FORmalizing a profit-sharing arrangement with employees would rob their businesses of capital and, ultimately, stunt growth. But to Richard Dapson, president of Anatech, a supplier of chemicals to hospitals, profit sharing is the fuel behind his Battle Creek, Mich., company's 25% yearly growth rate.

At Anatech, profit sharing takes two forms: cash bonuses, which range from .75% to 2.0% of pretax profits, whenever there is a profit; and retirement-savings contributions equal to 10% of each person's wages plus bonus, paid by the company into a simplified employee pension (SEP) plan. Below, some tips from Dapson on how to tailor profit-sharing plans to motivate employees:

- **Make frequent contributions.** Anatech pays its bonuses and SEP contributions monthly. "Because the rewards are tied to current performance, people keep track of sales each day, so they can see if they'll get those bonuses," Dapson says.
- **Keep plans simple.** One priority of Dapson's was to make the connection between corporate results and individual rewards simple enough for everyone to understand. "I wanted people to be able to calculate while they're doing their jobs that if sales go up by *x*, their next bonuses will add up to *y*," he says.
- **Don't attach strings.** Because he felt confident about having designed an attractive compensation scheme, Dapson didn't set up a prolonged vesting schedule to tie employees to the company.
- **Be fair.** At Anatech, even part-time workers participate in the profit-sharing plans once they've worked for the company for several months. Fair sharing is so ingrained that when Dapson and his two partners reward themselves with extra bonuses, they write extra profit-sharing checks for their employees as well. *—J. A. F.*

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- **Software Publishing**

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Inc.
BOOKS

# IN THE OFFICE

OFFICE EQUIPMENT

## *Low-priced, High-Tech Telephoning*

SOPHISTICATED TELEPHONE-ANSWERING SYSTEMS, through which callers can buy stocks or get train schedules by merely pressing a number on a keypad, have until now been the province of voice-mail systems that run hundreds of thousands of dollars. But the technology is now so miniaturized in both size and price that it can be embraced by small businesses and sole proprietors as well.

Easily installed in an ordinary desktop computer, budget-end interactive answering systems cost hardly more than household answering machines. Yet they not only possess superior voice fidelity, but in many functions are as versatile as any switchboard. For a few hundred dollars plus a microcomputer, you can have voice mailboxes just like the big-ticket versions. What would a modest enterprise do with so clever a contrivance? Here are a few illustrations:

1. Establish two-way dialogues with customers or vendors, using discrete codes that access exclusive material.
2. Deliver spoken information at a specified time.

*(Continued on next page)*

WORKPLACE

## *From Office to Factory Floor*

IF OFFICE WORKERS get fresh flowers, *you* get them too, CEO Chet Giermak promised line workers at Eriez Magnetics, a $55-million industrial-equipment manufacturer in Erie, Pa. The notion was greeted with blue-collar snickers. But once bunches of chrysanthemums started arriving regularly, the people on the floor took to them as positively as they had taken earlier to fine art hung on the walls, nameplates placed at workstations, and windows opening to the same landscaped outdoor views that upstairs executives were granted.

Mums were the latest inspiration in Giermak's determined crusade to close the quality-of-work-life gap between the company's 110 employees in engineering and sales, and its 145 factory employees. "I'm not saying everyone should have the same perks," he argues, "but I am saying that there are certain perks everybody should have." Hence production people, long since relieved of punching time clocks, also enjoy such white-collar advantages as long coffee breaks and access to corporate supplies for personal use.

Giermak shrugs off the extra and decidedly unconventional costs as mere "pocket money." No wonder: unexpected absenteeism at Eriez is one-eighth the industry norm, and Eriez has practically no turnover—attributable, claims Giermak, to gaining equal respect from all 255 workers. *—Teri Lammers*

RESOURCE

## *The Economy of Ecology*

**American businesses flush more than a billion gallons of fresh water down the toilet every working day and throw out 15 million plastic toner cartridges every year. Those and four dozen more sordid facts of 9-to-5 life have been collected in *50 Simple Things Your Business Can Do to Save the Earth* (EarthWorks Press, Berkeley, Calif., 1991), a slender paperback enumerating the number of trees, gallons of oil, cubic yards of ozone, and so on, that industry squanders.**

**The point is to persuade industry not to. Contributors describe specific corrective steps and also analyze each recommendation's dollar return. For example, a toilet-water-saving device pays for itself in 13 months; a refilled toner cartridge is about half the price of a new one. The suggestions *are* simple and really will save the earth—at least that part of it Exxon and Monsanto haven't gotten to. *—R. A. M.***

### IN THIS SECTION

**LOW-PRICED, HIGH-TECH TELEPHONING**
*Interactive systems are within reach*

**FROM OFFICE TO FACTORY FLOOR**
*Companywide quality of work life*

**RESOURCE: THE ECONOMY OF ECOLOGY**

**DODGING FRAUD**
*Forgery-proof business forms*

**WHAT TO DEMAND OF TRAVEL AGENTS**
*How do they stack up?*

**Edited by**
**Robert A. Mamis**

ILLUSTRATION J. SCOTT CAMPBELL

*(OFFICE EQUIPMENT, from page 139)*

Say you leave for Europe on a 7 a.m. flight and need to reach someone who won't be available until you're over Greenland. Solution: First record the message. Then at a designated minute the system will dial on its own, wait for a pickup, ask for your party (in case someone else answers or there's a switchboard), establish a connection to the right person with the right password, then speak on your behalf.

3. Advise traveling salespeople about out-of-stock situations. No longer does a rep about to close a deal need to get his warehouse clerk for assurance of delivery; the rep can listen directly to the warehouse's own inventory reports.

4. Divide responses into branches to help the caller reach the desired area of information. A retailer, for instance, could pitch daily specials on one branch and new products on another, then debrief resultant phone orders at leisure.

5. Place one in an office-at-home adjunct. Then adapt the tactic described in (2) above, setting the system to call your office at a designated time—say, during a boring meeting from which you'd like to be excused.

The setup is simple. The hardware consists of a plug-in board that fits inside a computer (which needn't be exclusively devoted to running the system). The telephone is attached via a standard phone-jack, and the software self-installs. It's best to have a capacious hard disk, since five minutes of talk requires a megabyte of storage. ***—R. A. M.***

### THE PLAYERS IN THE PHONE GAME

THERE ARE THREE MAJOR players at the low-price end of the voice-messaging industry. All require IBM PCs. (None run on Apples.) Below is a summary of their offerings:

**NATURAL MICROSYSTEMS**
NATICK, MASS.
508-650-1300 OR
800-533-6120
Starter unit offers internal modem, automatic redial, appointment calendar, and voice-dictation modes ($249): add-on handles caller responses based on touch-tone replies ($200). Other systems accommodate from 2 to 48 incoming lines, at prices that range from $1,395 to $36,000.

**THE COMPLETE PC**
SAN JOSE, CALIF.
408-434-0145 OR
800-634-5558
Starter unit offers voice mail, sequential dialing, automatic redial, forwarding, etc. ($399). Complete unit includes all of the above plus fax, fax-forwarding capability, data modem, and a port for a scanner ($699).

**TALKING TECHNOLOGY**
ALAMEDA, CALIF.
415-652-9600
Starter unit costs $295. Add-on module designed for telemarketing is $99.

TWO RESELLERS INCORPORATE The Complete PC boards in their offerings:

**FYI SYSTEMS**
SAN DIEGO
619-276-5000 OR
800-833-6611
Includes The Complete PC board in its Work Smarter package ($699).

**DAK INDUSTRIES**
CANOGA PARK, CALIF.
800-325-0800
Through mail order. To find out how these PC-based voice-mailbox systems work, dial 800-456-9678. If a man answers, don't hang up; it's DAK's own Drew A. Kaplan—recorded for that purpose.

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SECURITY

## *Dodging Fraud*

A BILLION DOLLARS' worth of fraudulent checks were cashed last year, many of them via simple electronic alteration of office-printed documents. That's the estimate of Washington, D.C., consultant Frank Abagnale, and he ought to know, having personally forged $2.5 million worth before the feds put a stop to a brilliant career. Indeed, rues Abagnale, "color copiers and scanners have made it 10 times *easier* today."

Now on the right side of the law, Abagnale advises corporate America on how to protect against felonious schemers like his old self. One result: business-forms manufacturer Standard Register has added safeguards. Among them:

- Paper embedded with artificial watermarks so faint they cannot be copied.
- Numerical fonts with distinct shapes said to be impossible to modify.
- A colored background that disappears—replaced by the letters V-O-I-D—when the check is tampered with.
- Chemically treated toner that inseparably bonds laser-printer ink to paper.

For more information on fraud-prevention products, ask for the specialty-products department at Standard Register, at 513-443-1000. ***—R. A. M.***

BUSINESS TRAVEL

## *What to Demand of Travel Agents*

EVERY DAY BUSINESSPEOPLE fly on scores of airplanes in thousands of seats at dozens of prices determined by hundreds of travel firms. The gap between how a corporate-travel agency could perform and how it does can be wide—and costly. Here are eight questions to evaluate how your agency stacks up.

**1. What is the agency's revenue?** Agencies grossing less than $10 million a year don't wield enough clout to wheedle favorable treatment from airlines; agencies that bring in more than $60 million don't bother to. The willingness and ability of a middle-ground agency to forge special deals can save clients as much as

40% *beyond* everyday discounts.

**2. What support do the agency's up-front people receive?** Negotiating favorable seat prices is a constant-vigilance mission that requires backup staff, a non-revenue-producing expense many agencies are loath to assume. An acceptable ratio is one support person behind each selling agent.

**3. Where's our free ticket?** To interest agencies in out-of-the-mainstream flights that otherwise would be chronically underbooked, carriers tender rewards for booking them. Often the favor is complimentary tickets—for the agency, not the flier. A responsible agency passes them along.

**4. Is the agency biased toward certain carriers?** Agencies can earn lucrative overrides (percentage points added to the standard 10% commission) by funneling business through only one or two airlines. A responsible agent should spread business among several carriers.

**5. Does the agency have an automatic low-fare finder?** If it doesn't, you aren't automatically being quoted the best available price. A diligent agency electronically scours the system for price breaks half a dozen times a day.

**6. How does the agency's average discount compare with retail?** Against list prices, every agency appears a discounting genius. The better measure is against Lowest Logical Business Fare—the three- to seven-day advance-purchase price that even you could obtain.

**7. How carefully does the agency monitor its individual sellers?** Computer surveillance to prevent innocent overpricing is a minimum safeguard. An agency ought to employ a quality-control manager as well.

**8. What quid pro quos can a business expect for volume purchasing?** More than a million dollars' worth of air travel a year ought to bring you your own agent-in-residence; several hundred thousand dollars' worth should entitle you to a satellite ticket printer on the premises. *—R. A. M.*

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READER-TO-READER ADVICE

### FERTILITY RIGHTS

**Earl Fredrickson has obtained marketing rights to a computer-managed fertility monitor. He asked how he could best market it to OB/GYN doctors, and whether he should sell or lease it (The Temperature's Rising, June).**

Better results for patients and a new source of revenue for the practice will get a doctor's attention. That's what Mr. Fredrickson should stress in his marketing. Because infertility treatment isn't well covered under most health-insurance plans, the cost will come directly from the patient. The potential profits from rentals are huge. All of that will go nowhere, though, if Fredrickson can't point to clinical trial results showing his technology's superiority.

Jeffrey J. Denning
Management Consultant
Practice Performance Group
Long Beach, Calif.

## NEW QUERIES

**Sometimes the most unusual Network questions elicit the smartest responses—take a look at this month's tips on marketing fertility monitors. The letter we received from a would-be exporter of classic cars may therefore find an expert to answer it. If you're not such a specialist, there are more general questions concerning credit lines and business plans, plus the very sensitive problem discussed in the first letter below.**

### VOICING DOUBTS

My mail-order business sells laptop and notebook computers and peripherals. As a minority, I try to give my employees, most of whom are also minorities, the break they need. And I reward them all, regardless of position, with commissions for every order they take over the phone. But I'm afraid we may be losing sales because most of our employees have very strong accents and some difficulty with English. Some customers have canceled their orders, saying they cannot do business with vendors "who don't speak English." Yet those same employees happen to be more hardworking, knowledgeable, and efficient than those I hired who had good speaking voices. If I did find the right employee and asked the others to avoid answering the phone, I'm afraid I'd court trouble for my company. Please help.

Manny O. Manapat
President
Tote-a-lap
Foster City, Calif.

### STUCK IN TRAFFIC

Our company is starting to market remanufactured classic cars of the '50s and '60s, and we'd like to export cars to Western Europe, Asia, and South America. We have investigated traditional channels—the Department of Commerce, world-trade centers—but progress has been slow. Can anyone recommend alternatives?

Carey M. Berg
President
CMB Associates
Brooklyn, N.Y.

### WHERE CREDIT'S DUE

My home-furnishings store has been open for 16 months and showed a profit in its first year. I have an excellent credit record and a good relationship with my bank. Still, I can't get good credit lines. I have one line of credit with a factor because the manufacturer agreed to work on recourse, but most refuse to do that. Another manufacturer asked for a letter of credit from my bank, but the bank says I have too little equity. Any ideas?

Theresa Mink
Owner
Leather Gallery
Austin

### FACTORY REHAB

How do I locate U.S. companies that are outsourcing? We're a small, nonprofit rehabilitation facility that prepares injured workers to return to their jobs. As part of our program, we run a factory for recuperating workers. We're trying to find companies that outsource packaging, mailing, shrink-wrapping, drill-bit sharpening, and so on.

Bob Schmidt
Sales and Marketing Manager
Betty Jane Memorial Rehabilitation Center
Tiffin, Ohio

### A MAN WITHOUT A PLAN

Can anyone recommend a good book or pamphlet on writing a business plan?

Jeff Weinstein
President
J.L. Enterprises
Brooklyn, N.Y.

### FAMILY AFFAIR

**As he and his wife approach retirement age, Louis Lorenz has to find a buyer for the business that has been in his family for 80 years. He wants someone who will carry on traditions, and he's afraid the business-opportunities pages or a business broker will expose him to "get-rich-quick" types (We Are Family, May).**

If Mr. Lorenz has met potential successors but hasn't been able to make up his mind, he should consider bringing those candidates into the company to help out, either part-time or full-time. That way he can see how they interact with employees. Mr. Lorenz should also recognize that someone may really care about his business but may set goals for it that are different from his.

I hope Mr. Lorenz is sincere in his wish to carry on the family tradition, and recognizes the price he may pay. More than once I have made an offer to buy a business, have been told that the owner and employees agreed I was the candidate most likely to carry on traditions, and then have seen the owner turn around and sell the business to a higher bidder. And that happened in small midwestern cities, far from the "get-rich-quick" types Mr. Lorenz fears.

Edward W. Eick
Consultant and Owner
Reliable Motor Supply
Grand Rapids

### LICENSED TO BILL

**Working as a government engineer, Gregory C. Hildebrand invented several high-tech devices that he can now license to private industry. He's not sure, though, how to put a price on the dollars saved and the capabilities gained with his products (Government Issue, June).**

Available accounting techniques can reduce those intangibles to a reliable royalty base denominated in dollars. A running royalty with periodic payments proportioned according to use gives the licensee some incentive to arrive at an accurate measure of use.

The cost of licensing work will probably be a bigger problem for Mr. Hildebrand, especially if each of his licenses includes different terms. He could ask each licensee to pay the cost. Or he could draft a skeleton agreement containing terms common to all deals and then ask each licensee to fill in the blanks. Mr. Hildebrand could then simply scrutinize the supplied terms to make sure they're reasonable.

Michael J. Ure
Patent Attorney
Arlington, Va.

***Please send your words of advice to The* Inc. *Network, 38 Commercial Wharf, Boston, MA 02110, or call our reader response line,* 800-444-1756. *Or fax your letters to* 617-248-8090. *We'll publish the best responses and queries.***

## RESOURCES

### FRANCHISE BLUES

I purchased a franchise that failed miserably. I think the franchisor was partly to blame. The service representative who should have conducted marketing and demographic studies was unavailable, so a marketing rep conducted them instead, and the results were simply population statistics. Also, the franchisor chose a location in an underdeveloped neighborhood at the wrong end of town. After 10 months of operations, sales were running less than 20% of the franchisor's projections. Can I recover any of my investment?

Name Withheld

**If the franchisor made earnings claims outside of the prospectus, either orally or in writing, you have grounds to seek a recision—the return of your out-of-pocket money, less any money you made—or you may sue for breach of contract. The standard for recision is willful fraud, and that may also be grounds for punitive damages. Whether you can recover your money is a question of proving how much you relied on the franchisor's statement, whether it was false, and whether damages can be traced to that omission or misstatement of fact.**

**Can you sue just because somebody else found the real estate? Michael Seid, a franchise consultant, doubts it. "Most franchisors don't decide on the location. When you read the agreement, you may find you made the final approval."**

**Your problem is that you did all your preparation *after* the business failed. That's not unusual, according to Seid. It's also not unusual to face problems early on. Bev Karmanos, whose American Speedy Printing shop, in Tallahassee, Fla., was chosen by *Inc.* as one of America's best-managed franchises (October 1989), didn't break even for almost a year. "We had some very lean times," she says. "And it had *nothing to do* with the franchisor." But she and her husband were prepared for those times. You could have been, too.**

**"Franchisors want to sell you a franchise," says Seid. So you must find out as much as you can *before* you talk to them. Visit their franchises, research them in business magazines, and contact the International Franchise Association (800-543-1038). It sells a *Franchise Opportunities Guide* for $15, and a pamphlet of basic information called *Investigate Before Investing* for $5.**

**Then visit the company headquarters; it's worth the price of a plane ticket, Seid says. Arrive with a list of questions, "and don't be satisfied with glib answers. Ask about training and advertising, and get details. Is the franchisor making money? Is there a franchisee association? Who does the demographics? If it's supposed to be Joe Schmidlap, and some regional guy who's not a specialist does them instead, say, 'Whoa, this is my investment!' "**

**The disclosure document that franchisors have to supply you with will provide some answers, but don't leave it at that. You'll also get a list of established franchisees. "Pick up the phone," Seid says. "Franchisees like to brag about their businesses." Ask how much it really cost them to get into business, how long it took to break even, how much they're making, and whether they'd buy another franchise today.**

**Fred DeLuca, president of the Subway Sandwiches & Salads franchise, agrees. "Interviews with franchisees are the single most important step." He suggests that prospective franchisees talk to at least 10 franchise owners—local and national—to find out if the corporate literature jibes with their experience.**

**When choosing a location, the franchisor's numbers should be only the start of your research. "I wouldn't bank my money on those numbers," Bev Karmanos says. Instead, get your own. "You can't expect the franchisor to do everything," she notes. Even franchisor DeLuca downplays demographics as the sole basis for site selection. Franchisors can research concepts or regions, he says, but when it comes to choosing a location, you have to look at the place and trust your judgment. "If you rely on the company to make those decisions, you're not being a businessman."**

***—Michael P. Cronin***

GOOD FORM: AN EMPLOYEE HANDBOOK THAT ACTUALLY *WORKS*

# Inc.®

THE MAGAZINE FOR GROWING COMPANIES

FRANK SHANNON, CORPORATE EXEC TURNED COMPANY OWNER

## 15 STEPS TO BUYING THE PERFECT COMPANY

*See page 26*

PLUS: THE DIARY OF A FAMILY THAT BOUGHT THEIR DREAM BUSINESS—TWO YEARS LATER

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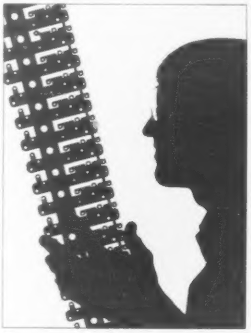

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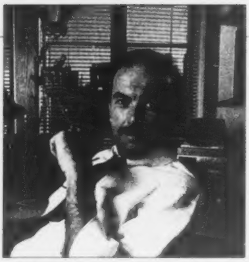
COVER PHOTOGRAPH
by G. PAUL HAYNES,
OUTLINE

# FYI



*Notes from George Gendron,*
*Editor-in-Chief*

▪▪▪▪▪▪▪▪▪

*"Periodically Henry [David Thoreau] would work in the family business, and every time he did, he would make some innovation that would improve production. American pencils at the time were inferior to those imported from Europe, especially the German models. American pencil lead was fabricated with plumbago, wax, and glue, and made an irregular, scratchy line. In 1838 Henry did some research and discovered that German pencils were manufactured with Bavarian clay, which was already being imported into Massachusetts. He changed the formulation of the lead and then designed a new grinding mill to produce a fine graphite. The result was a vastly improved American pencil, and the Thoreau family business prospered."*

—From *Living at the End of Time*, by John Hanson Mitchell (Houghton Mifflin, 1990)

**THE NEW-BUSINESS NEWS** While not all new businesses incorporate, Dun & Bradstreet's periodic reports on new incorporations are generally regarded as the best barometer of start-up activity in the United States. Since 1986 the barometer has been falling. One major reason for the decline, according to David Birch, has been the elimination of favored tax treatment for capital gains. "Why go out and risk everything you've got when your sweat equity is going to be taxed at the same rate as ordinary income?" says Birch, author of *Job Creation in America* (The Free Press, 1987) and founder and president of Cognetics, in Cambridge, Mass. "This, combined with the virtual disappearance of bank credit for new businesses, has had a chilling effect on start-ups."

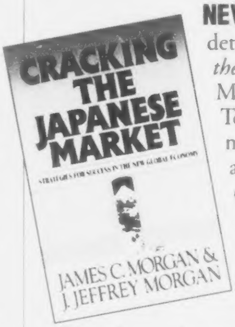
Nor has the recession produced the burst of start-up activity that many experts predicted. What the experts overlooked, Birch explains, is that national unemployment is hovering around 7%, a rate not much higher than what economists often refer to as virtual full employment. "In most parts of the country, anyone who wants a job can get one," says Birch. As a result, we're seeing many fewer "start-ups of desperation"—that is, companies begun by people who view entrepreneurship as their last resort.

On the other hand, Birch believes the current start-up lull is temporary. "I see the rates bottoming out and remaining stagnant for a year or two. Then we'll see them start to climb again." The reason? Demographics. "We know now that the prime entrepreneurial age isn't 25 or 30; it's between 40 and 50, after you've gone out and gotten some real-world experience and developed some confidence. And we're about to enter a period when that demographic pool will be larger than ever. Many entrepreneurs will be managers whose careers have peaked in established companies. Others will be women with children reentering the professional world. These are people who will be starting businesses out of inspiration, not desperation. The companies themselves may not grow as wildly as they did in the '80s. But the start-ups will be there. It's all in the math."

### *New Business Incorporations 1950–1990*

| | |
|---|---|
| 1950 | 93,092 |
| 1955 | 139,915 |
| 1960 | 182,713 |
| 1965 | 203,897 |
| 1970 | 264,209 |
| 1975 | 326,345 |
| 1980 | 533,520 |
| 1985 | 662,042 |
| 1990 | 647,655 |

Source: The Dun & Bradstreet Corp.


CRACKING THE JAPANESE MARKET
STRATEGIES FOR SUCCESS IN THE NEW GLOBAL ECONOMY
JAMES C. MORGAN & J. JEFFREY MORGAN

**NEVER MIND** I know, I know. A few months ago I told you I detested how-to business books. That was before I read *Cracking the Japanese Market*, by James C. Morgan, CEO of Applied Materials, and his son J. Jeffrey Morgan, president of RAD Technologies (The Free Press, 1991, $24.95). This extraordinary book sets a new standard for the genre. It is clear, literate, and authoritative. Although informed with first-hand experience, it has none of the anecdotal bravado that renders most CEO-authored texts unreadable and unreliable. And you don't need to be planning a move into Japan to benefit. Part three, "Succeeding in Japan,' is a mini-M.B.A. program in its own right. If you do have your sights set on the Pacific Rim, you can take heart from Jim Morgan's example as well as his advice: during a visit to *Inc.*, he told me that prior to becoming CEO of Applied Materials, in 1976, he had never set foot outside North America.

**BUT HOW DO YOU GET HIM ON HIS CAR PHONE?** In a recent issue of the newsletter "Developers' Insight," the editor included a note giving readers nine ways to communicate with him. The alternatives were a voice-mail number, a CompuServe ID, an MCI Mail ID, a BIX code name, a Logic Board number, a fax number, an Internet code, a Telex number, and his mailing address. I have to say, I'm impressed. I just wonder how he fits them all onto his business card. ▶

PHOTOGRAPH: MARK ALCAREZ

# Hands On

## SALES & MARKETING

*The Eagle has landed Jack Davis a flock of new clients.*

BUSINESS-TO-BUSINESS

### *Using Memberships to Build a Brand*

BEFORE FRANK PERDUE, PEOPLE BOUGHT GENeric chicken. Perdue's genius was in creating a brand. Jack C. Davis, regional manager for First American Title Insurance, in St. Louis, has found that you can easily do the same thing with a commodity service. For his clients, the local real-estate agents who use First American's closing and title-insurance services, Davis created a club. It's an effective and inexpensive way of differentiating his firm from all the others that agents could use.

Last December Davis mailed a postcard to St. Louis real-estate agents. On the front, over an attractive white eagle on a silver background, the card said only, "The Eagle Is Coming!"—with no indication of who sent the card. A second card, mailed a short time later, looked like the first and said, "The Eagle Is Coming *Soon*!" A third mailing, in an envelope, contained a brochure, the front of which said, "The Eagle Has Arrived!" Inside, the brochure announced First American Title's Silver Eagle Service Club and listed services and benefits that were "exclusive" to members. A letter from Davis and a reply card (postage required) that could be sent in

*(Continued on next page)*

ADVERTISING

### *How to Fire an Agency*

YOU'VE TRIED TO WORK things out with your advertising agency. But it's clearly time for a change or time to take your advertising in-house. So how do you break the bad news? We asked those who've been there—on both sides of the fence.

**When's the right time to fire an ad agency?** "When it's not giving you service or the creative isn't good enough," says Margaret Rodenberg, vice-president of sales and marketing at Viteq Corp., in Lanham, Md. *Recommendation:* Do the deed quickly, preferably at the end of a campaign.

**How should it be done?** "In person, and the guy who did the hiring should do the firing," says Gary Garkowski, VP of marketing at Chep USA, a national renter of wooden pallets in Park Ridge, N.J. *Recommendation:* Deliver the news face to face, if possible at the agency's offices; follow up in writing.

**Must the agency hand over all marketing material?** "Once all the bills have been paid, you're entitled to all mechanicals, TV footage, and so on. You're not entitled to creative never used, unless that's included in the contract," says Snowden McFall, president of Brightwork Advertising, in Nashua, N.H. *Recommendation:* Get what you paid for.

**What kind of confidentiality can I expect?** "Basically none, unless you've signed a confidentiality agreement," says Martha O'Gorman, director of communications at Jackson Hewitt Tax Service, in Virginia Beach, Va. *Recommendation:* Get it in writing.

**Should I find a new agency beforehand?** Yes, says Rodenberg: "It's going to take 60 to 90 days to find someone new." No, says O'Gorman: "You risk your agency firing *you*." *Recommendation*: Proceed with caution. ***—Susan Greco***

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ADVERTISING
*How to fire an agency*

RESOURCE
*How to build a marketing plan*

RECESSION TACTIC
*Sales suggestions anyone?*

PROMOTIONS
*Product sampling*

**Edited by Tom Richman**

PHOTOGRAPH MARK KATZMAN

*(BUSINESS-TO-BUSINESS, from page 155)*

for more information accompanied the brochure.

From the 9,000 names that Davis initially mailed to, he's signed up 380 new agents, and the St. Louis First American office did as much business during the first five months of 1991 as in the first nine months of the previous year.

Is the Silver Eagle Service Club exclusive? No. Any agent who asks can join it. "Asking to join the club," says Davis, "is the same thing as asking to be my client."

Do members receive special benefits or incentives? No, nothing more than they should expect from any company handling real-estate closings. Club literature promises members such benefits as prompt, accurate, professional service; assignment to Silver Eagle personnel (the same people who handle nonmembers' business); 24-hour voice mail; and Silver Eagle's commitment to anticipating and solving problems. Members also get a pen and a newsletter subscription.

But the heart of the service-branding gimmick is the official-looking enrollment form that clients complete. It asks them a dozen questions about how they want *their* closings handled: for instance, whether they want First American to contact buyers and sellers directly or to always go through the agency, and when and how they want closing statements sent to them. "Finally, somebody is asking me what *I* want," says Joann Britton, an agent with Gundaker Better Homes and Gardens brokerage, in St. Louis, and a new First American client and club member.

That's exactly the response Davis was hoping to get. "It's mostly what we were doing before," says Davis, "but now we've packaged these services and given them a name. When I proposed it, my boss said it was the stupidest thing he'd ever heard of. I said, 'I know. That's why it'll work.' "

—*T. R.*

RESOURCE

## How to Build a Marketing Plan

**Why is Adrienne Zoble's 74-page loose-leaf workbook, *The Do-able Marketing Plan: Business Survival and Growth for the '90s*, a terrific small-business marketing guide? Because it doesn't pretend to have all the answers; just most of the questions. And because it doesn't overwhelm already overburdened CEOs with everything they *should* be doing, but shows them how to build a useful and usable marketing plan a step at a time. Even if you spend only 10 or 15 minutes a day filling in the blanks that Zoble, a marketing consultant, has organized to move you logically through the process, the exercise will still open your eyes to possibilities you've overlooked.**

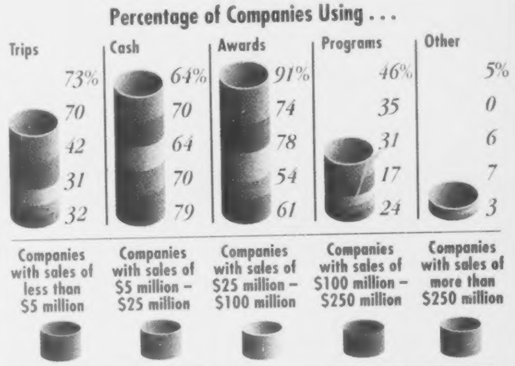
**For the price of taking a consultant to lunch ($42.95 plus $6.75 for postage and handling), get the workbook and spend 15 minutes a day with it. You may want professional help eventually, but going through Zoble's exercises will help you know better what a consultant is talking about. To order, call 908-968-7771.**

**—*T. R.***

COMPENSATION

## Rewarding the Troops

*Does money speak louder than words? Cash is a popular motivator among companies large and small, but so are awards, which can range from plaques to mention in the company newsletter. The very largest corporations are more likely to sponsor trips and ongoing programs such as "Top Salesperson of the Month" or "President's Circle." One surprise: few companies make use of rewards in the* Other *category, which includes such things as tickets to a game or membership in a health club.*



Source: "Twenty-sixth Survey of Sales Force Compensation," The Dartnell Corp., Chicago, 1990.

RECESSION TACTICS

## Sales Suggestions Anyone?

BOOSTING SALES IS EVerybody's job, even for those who aren't salespeople, at Telecom Library, headquartered in New York City. This past winter cofounder Gerry Friesen issued a memo that was a shocker: layoffs were inevitable at the 60-employee publishing company, it said, unless everyone pitched in with ideas—not for cost cutting but for gaining more sales.

It wasn't only the threat of layoffs that got people's attention, but also "the opportunity for them to work directly with me and show their stuff," says Friesen. He listened and asked questions. Then he told employees to flesh out their ideas or explained why they weren't feasible. For promising suggestions, he would always ask, "Do you have time to do this?" If employees said yes, they got the go-ahead.

Editorial employees repackaged a dated but popular book to rejuvenate its sales. Sales staffers exchanged their 50 most-difficult-to-close accounts among themselves. The company got more mileage out of its editorial mailing list by using it to pull together a conference. Six months later, though ad sales are still off, there have been no layoffs, revenues are up, and the company is profitable.

—***Teri Lammers*** ▶

CHART ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

PROMOTIONS

## Product Sampling

IF THE FLAVOR, FEEL, SMELL, or performance of your product is its best selling point, exploit it. "I can *tell* people all day how good this stuff tastes," says Joanne Biltekoff about Elan frozen-yogurt products, "or I can get them to taste it."

Biltekoff, who cofounded Elan with her husband, James, developed the dessert product from scratch in 1986. Although they lacked the capital for advertising blitzes and direct mail, they built Elan to be the leading premium brand in some regions, primarily by using in-store demonstrations to get people to try it.

Product sampling—whether in a retail store, at a trade show, or at some other gathering of potential buyers—is low-tech, cheap, and cost-effective. It's especially useful for small companies that don't have the dollars big companies use to introduce new products. How cheap?

You'll pay a demonstration company about $100 a day to supply the demonstrator and card table, and in a six-hour shift—most supermarket demos take place between 11 a.m. and 5 p.m.—your product will get into the hands or mouths of about 500 people. That's about 20¢ per person. Add the cost of the product consumed, the redemption cost of the distributed coupons, and the cost of training the demonstrators, to bring the total average cost up to about 30¢ per sample. Even mailing samples, which lacks the personal touch, costs more. If some easily demonstrated characteristic is the best argument for buying your product, then sampling, done right, is a great way to make your case.

To find a quality demonstration firm, keep an eye on the local supermarkets. When you spot demonstrators who are good at their jobs, ask whom they work for. Or call National Association of Demonstrating Companies at 800-338-6232 and ask for a roster of demo firms operating in different market areas.

Doing it right means—

- **Sampling to the right prospects.** For a grocery product, not every store, even in the same chain, may be right. Elan frozen yogurt costs more than $2 a pint. "We're not going to sell a whole lot to the mac-and-cheese crowd," says Biltekoff, who talks to chain-store buyers about the demographics of different stores' markets before deciding which stores in the chain to use for demos.
- **Using personable, well-trained demonstrators.** A badly trained or poorly attired demonstrator can do more harm than good. The demo firm you hire will do some training of the part-timers they employ. Or, as Elan does, you can train demonstrators yourself. Elan also supplies uniforms, and it has replaced the customary card table with a stand that looks like an Elan yogurt carton.
- **Positioning your demo well.** Some people want demonstrators close to the store entrance. Biltekoff prefers hers near the frozen yogurt. If you have to be at one end of the shelf or case that holds your product, she says, make sure it's the upstream end. If shoppers have to fight cart traffic to get back to the spot where they can find the stuff, some just won't bother.

Elan, in Buffalo, is now selling in 20 states and has graduated to a more balanced marketing strategy. Even so, Elan uses TV and print ads primarily to support its demonstration program, which remains its flagship marketing medium. *—T. R.*

*Sampling sells, says Biltekoff.*

PHOTOGRAPH: RICHARD MITCHELL

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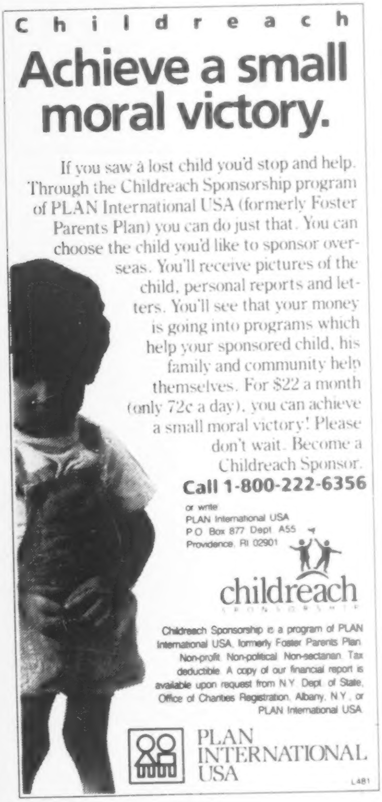

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PLAN
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L481

# MANAGING PEOPLE

*Glassblower Livesay evaluates coworkers twice a year.*

### MEASURING PERFORMANCE

## *Making Peer Reviews Work*

WHO BETTER APPRECIATES THE QUALITY OF YOUR work: your supervisor or the folks who toil beside you all day long? Bosses rarely win that contest. Yet they're usually the ones charged with assessing workers' performance.

Not at YSI, a Yellow Springs, Ohio, instrumentation maker. As part of a bottom-to-top revamping of its corporate structure and philosophy, $28-million YSI is instituting twice-a-year peer reviews in all work centers in its production area. The appraisals are the most important feedback an employee gets. Leaders—previously known as supervisors—may be asked to grade an individual, too, but their input holds no more weight than any other team member's.

Peer appraisals are part of a management trend toward empowering workers. At YSI, it seems to be working. Lynn Livesay, a glassblower who's worked there for 14 years, says: "What we say means something. Years ago you could go and complain, and nothing was done about it."

Still, it's hard to rub elbows all day long with someone you've criticized the day before. Here are some tips from YSI employees on how to make peer appraisals work:

- **Construct logical peer groups.** Whether or not your company is organized around teams, take care that every member of a peer group relies on the other members to achieve a goal. A colleague's appraisal won't be meaningful if she doesn't really care how well another member of the group does his job.

*(Continued on page 163)*

### LEGAL BRIEFS

## *When Company Owners D-I-V-O-R-C-E*

IT STARTS OUT SO beautifully, the business born of matrimonial harmony. But when divorce intervenes, there's nothing messier. "The rules of an ordinary partnership will not apply in divorce," warns Helene Brezinsky, a partner at Rosenman & Colin, in New York City.

The courts recognize that the dynamic between married business owners is more complex than the one between unrelated partners. So each case is resolved differently—in a way that may not correspond to the official ownership position of each spouse. Here are four common practices in jointly owned husband-and-wife businesses and how they can backfire in a split-up:

**1. Cosigning debt.** Naturally, it means you're both responsible for paying the loan back. In a divorce or a business failure, however, one partner may decide to declare bankruptcy, which sticks the other one with the entire IOU.

**2. Departing from the norm.** Couple-owned companies are rife with activities that don't necessarily make business sense: deferring salaries, making gifts of stock shares, letting tax considerations drive business decisions. If the business record isn't clean or doesn't exist, it's much harder to persuade a judge that the ownership arrangement on paper should determine who gets the spoils.

**3. Depending on prenuptial agreements.** Recognize the limits of such agreements in many states. Over time each spouse's contributions to the company may change radically, or the value of the business itself may vary widely. Unless your prenuptial agreement has been recently reviewed by your lawyers, it may not be ironclad.

**4. Subordinating one partner's future to another's.** An extreme example: the photographer whose husband decides to manage her. Here the wife *is* the business, and the husband is extremely vulnerable in a breakup. *—E. E. S.*

**IN THIS SECTION**

MEASURING PERFORMANCE
*Making peer reviews work*

LEGAL BRIEFS
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WORK STYLE
*The new work force*

MOTIVATION
*Jump-starting employee confidence*

RESOURCE
*My old favorite: the New England pantomime test*

**Edited by Ellyn E. Spragins**

PHOTOGRAPH: ANDY SNOW

*(MEASURING PERFORMANCE, from page 161)*

- **Encourage interchangeable jobs.** Employees in YSI's work centers cross-train themselves to be able to handle any one of several jobs a team must execute. "Everyone is conversant with the same things, so you've got a really accurate view of other people's work," explains Ryan Dimmick, who assembles electronic temperature compensators.
- **Go slow.** Workers who are used to top-down appraisals mistrust this kind of initiative. "It was a mess when it first started here," says Livesay. One step to take in preparation for peer reviews: first introduce group appraisals to get people to compare their work with others' performance.
- **Give workers the tools to succeed.** YSI has applied liberal doses of training in interpersonal skills and problem solving to acclimate production workers to their new duties. The goal is for peer appraisal to become a continual process, not just a twice-a-year exercise.
- **Let workers control the consequences.** Give teams the power to hire and fire coworkers. It won't be taken lightly. Glassblower Livesay says morale plunged in her work center when it became clear that one of their two hires was not working out. But after taking every step possible to help the new member improve, the team knew they couldn't tolerate her performance—or pass the buck. "We didn't want her to go into another department. You can't do that to someone else," Livesay explains.
- **Know when to give up.** Not everyone is going to adjust to peer appraisal and its implicit doctrine: self-management. For months one work center focused on a member who was very uncomfortable about not being told what to do. "It took so much energy that we were beginning to lose our edge on the work itself," recalls one of the center's workers. The team member is going to get a new job in a more structured part of the company. —*E. E. S.*

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WORK STYLE

## *The New Work Force*

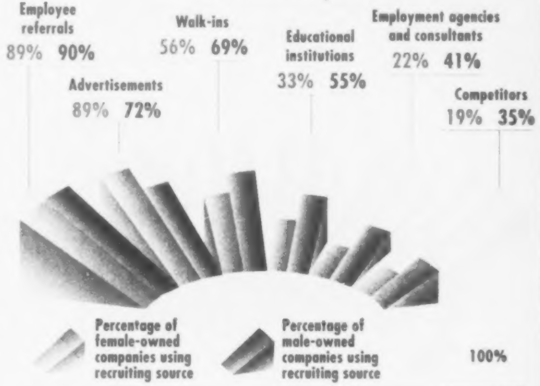
In *The Age of Unreason* (Harvard Business School Press, 1990), Charles Handy says that by the start of the 21st century the "core worker will have a harder but shorter job, with more people leaving full-time employment in their late forties or early fifties. . . ." He goes on: "Most people will find their place outside the organization, selling their time or their services into it.

". . . For them the pattern of hours will be different. They may find themselves working 25 hours a week for 45 weeks of the year (part-time) or 45 hours a week for 25 weeks a year (temporary). In either case they will need to keep on working as long as they can . . . because they will not be able to accumulate the savings through pension schemes or other mechanisms to live on."

RECRUITING

## *Boys Will Be Boys*

*Advertisements and employee referrals are still the methods of choice for recruiting used by both male and female chief executives. But male CEOs, this survey suggests, are more likely than their female counterparts to use headhunters and raid their rivals' companies.*



Source: "Female and Male Entrepreneurs: Their Personnel Practices and Influence on Employee Satisfaction," a study of small-business owners. Society for Human Resource Management Foundation, Alexandria, Va., 1990.

MOTIVATION

## *Jump-starting Employee Confidence*

IT'S ONE THING TO REbuild your organization around employee participation. It's another to make your people like the new corporate style. In 1988 Shepard Poorman's overhaul was stuck. Open communication among all workers was the goal. But employees at the Indianapolis printing company didn't like to speak out, and supervisors didn't enjoy hearing underlings' opinions.

Drawing on his memory of a college psychology course, CEO Bob Poorman Jr. suspected the solution lay in bolstering his employees' self-esteem. Poorman hired the University of Indianapolis's training department to develop a class that would teach workers how to nurture relationships.

The program focuses on three fundamental topics—the self, relationships, and teamwork skills—and meets weekly. The most popular feature of the 18-week lecture series: in-class exercises that bring psychological theory to life. The routines vary from humorous exercises on hidden agendas to doing the hokey pokey in class to loosen people up. But such unlikely routines often trigger the most arresting insights. After being given a group assignment to draw a coat of arms for the company, recalls Don Curtis, formerly vice-president of quality: "I was so involved in drawing my vision of the perfect coat of arms that I forgot to include the group in deciding what

*(Continued on next page)*

ILLUSTRATION: SERGIO BARADAT. CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

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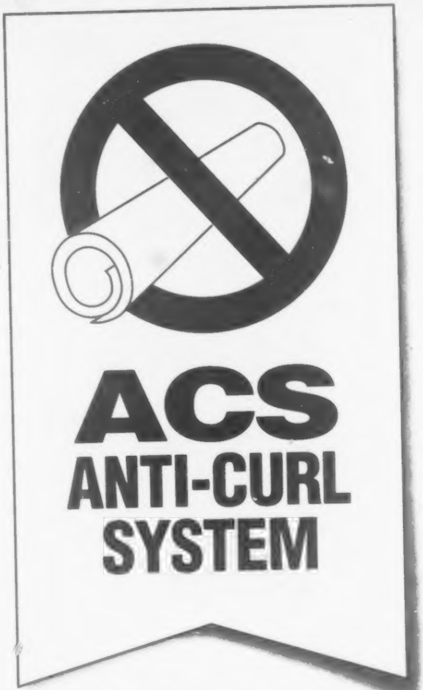

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*(MOTIVATION, from page 163)*

should go into the drawing. It drove home the point about teamwork."

So far, almost half of Poorman's 330 employees have entered or completed the course. Their communication skills have improved so much that the company's management now lets customers speak directly to on-line workers about orders, instead of filtering inquiries through the sales department. More important, Poorman's work force seems to be gaining equanimity. Says benefits administrator Susan Rearick: "People accept criticism better—they see it as an insight."

***—Teri Lammers***

RESOURCE

## *My Old Favorite: The New England Pantomime Test*

ANYONE SERIOUSLY EXPLORING the use of tests to assess prospective or current employees' aptitudes and skills should take a look at *The Tenth Mental Measurements Yearbook*, edited by Jane Close Conoley and Jack J. Kramer, which contains 569 critical reviews of 396 tests. While you probably won't want to select a test solely on the basis of the yearbook's critiques, spending time with this book is probably the fastest way to develop a context for understanding the broad range of tests in existence and what they try to measure.

Published by the Buros Institute of Mental Measurements, the yearbook describes and evaluates all manner of tests: vocational, personality, intelligence, mathematics, and 12 other categories. Each description includes the test's purpose, cost, and authors. In the back of the yearbook, a publishers index provides addresses. The book is available through The University of Nebraska Press (402-472-3581) for a pricey $125, so consider looking for it at the nearest university or urban library.

***—E. E. S.***

# BANKING & CAPITAL

*Hermann's search for a new lender ended with MetLife.*

LONG-TERM MONEY

## *Insurance Companies Move into Smaller Deals*

MOST GIANT LIFE-INSURANCE COMPANIES STILL turn up their noses at investments of less than $2 million. Given the due diligence and paperwork involved, bigger deals generally offer a more efficient way of putting billions of dollars to work. But some companies are finding that not all insurance companies toe that line completely. C. E. Niehoff Co., of Evanston, Ill., is a case in point.

A manufacturer of heavy-duty alternators, Niehoff was under pressure to refinance a five-year loan against a production facility. The existing lender was willing to rewrite the loan when the old one expired, in May—but only for about $750,000 ($200,000 less than the original amount). So Ralph J. Hermann, the vice-president for finance, approached other lenders. The company's own bank wasn't doing real-estate deals, and banks that were doing them wanted Niehoff to shift its entire banking relationship to them. "We had a good relationship with our lender," says Hermann, "so I didn't want to do that."

After several frustrating weeks, the company's bank introduced Hermann to someone on the corporate-lending side of Metropolitan Life Insurance Co. By the end of April he had what he was looking for: a new five-year loan (amortized over 20 years) at a fixed rate of 10.25% on the building. The loan, moreover, was for $1.2 million, enabling the company to pay

*(Continued on next page)*

PROTOCOL

## *What Bankers Like to Know*

ASK BANKERS WHAT unsettles them most and you'll get the same basic song and dance. Surprises, surprises, how they *hate* surprises. But what do they *really* want to know? We asked some experienced lenders what unnerves them:

**Scott Blatterman, executive vice-president, Manufacturers Hanover Trust, New York City:** "Don't tell us on December 15 that you'll earn $1 million, and then call in February to say, 'Actually, we lost $2 million.' That's when we say, 'How can this guy run a company?' "

**Deryl K. Schuster, CEO, Business Banc of America, Wichita:** "Say a guy underbids a contract. Something happens—bad weather, a regulatory problem—and now he's losing money. I want to hear about it early, because there's a chance we're going to have to help him through. What's he planning to do to get through this? What kind of support will he need from the bank? And how's he going to avoid problems like this in the future?"

**Norman McClave, executive vice-president, First Fidelity Bancorp., Newark, N.J.:** "Even when something happens that's good, like a big new order, we like to hear about it. It may or may not have an impact on borrowing. I don't like to find out about something affecting a customer in the morning paper. If the chairman of the bank mentions something, a banker wants to be able to say, 'Charlie called me about that yesterday, and here's how they're handling it.' "

**Martha Hayes, vice-president, First Union National Bank, Charlotte, N.C.:** "I like to hear about changes in the product line and in how the company is managed. If the VP of operations quits, we want to know who's filling in and what the plans are to replace the person. If you're adding a new product or a new plant, we want to hear. You may be financing it out-of-pocket today, but someday you may ask us for help."

*—B. G. P. and Susan Greco*

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*Insurance companies move into smaller deals*

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*Loan-guarantee options*

**Edited by Bruce G. Posner**

PHOTOGRAPH: ANDY GOODWIN

*(LONG-TERM MONEY, from page 165)*

down $450,000 on its floating-rate credit lines. Total fees came to 2% of the loan, says Hermann. "We were very pleased."

While the lion's share of Metropolitan Life's $130 billion in assets is invested in big companies, a small—and growing—portion of its lending is to small businesses, says Dean Bergquist, MetLife Capital's Chicago-based vice-president. Currently, he says, a $5-billion chunk of the portfolio (managed out of Bellevue, Wash.) is made up of loans to companies with sales as low as $4 million.

Many lenders, of course, have been ratcheting up their underwriting standards lately, but Bergquist says MetLife Capital's criteria have remained basically the same. It wants companies to have modest leverage, a three- to five-year history of profitability, and a clear ability to repay the loan from cash flow as opposed to collateral. "We're less concerned about what a company wants to borrow for," explains Bergquist, "than its ability to repay."

Other life-insurance companies—both regional and national—also operate in the midsize-company market from time to time. To find out if a company is doing smaller deals, contact the company's home office and ask for "corporate investments" or "capital markets." Or, like Hermann, get a referral from a banker. *—B. G. P.*

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RESOURCE

## *More Than Names and Numbers*

MOST DIRECTORIES OF financing sources are long on names and phone numbers but short on information that tells you what kinds of deals they're actually doing. But *Fleet's Guide: Income Property Financing Sourcebook* scores well on both counts. The guide, founded in 1988, is published by a pair of former commercial-mortgage brokers. The latest edition has detailed information on 357 lenders and investors—commercial banks, thrifts, pension funds, credit companies, REITs (real-estate investment trusts), and insurance companies—with appetites for commercial and multifamily real estate.

The most recent sourcebook, which is about 500 pages long, devotes a full page to each lender/investor. It tells, among other things, the types of projects the lender or investor is doing, its geographic requirements, and such underwriting criteria as whether its loans have prepayment penalties. The guide is released twice a year, with two interim supplements.

Over and above the pages of listings, *Fleet's Guide* devotes more than 100 pages to cross-referencing indexes, allowing you to search for sources with a particular set of interests. A year's subscription (including both volumes, the updates, and a Small Business Administration directory) goes for $285. To order, call 800-336-3246; for an extra $95 a year, you can buy a quarterly computer-diskette subscription that helps you sort through the data even faster. *—B. G. P.*

EQUITY

## *Matchmaking by Computer*

Before the first electronic matchmaking service between entrepreneurs and investors was booted up, in 1984, folks who needed $100,000 to $1 million to finance their businesses scrambled for it themselves. But over the past several years, a host of computer-based networks have emerged to make the search process more efficient.

Typically, networks charge fees both to money seekers and to investors. Investors check off the sorts of deals they're interested in considering, and the computer does the sorting. "If the potential for creating value is there, people should have no trouble getting introductions," says William E. Wetzel Jr., founder of the first network at MIT. "Whether they're able to sell the investors at that point is really up to them."

| Network | Area served | Listing fees | |
|---|---|---|---|
| | | Companies | Investors |
| **Georgia Capital Network**<br>Atlanta 404-894-3575 | Georgia | $75/year | None |
| **Kentucky Investment Capital Network**<br>Frankfort, Ky. 502-564-4252 | Kentucky | None | None |
| **Mid-Atlantic Investment Network**<br>College Park, Md. 301-405-2144 | Mostly mid-Atlantic | $35/year | $300/year |
| **Northwest Capital Network**<br>Portland, Ore. 503-294-0643 | Oregon | $100/year | $225/year |
| **Pacific Venture Capital Network**<br>Irvine, Calif. 714-856-8366 | Mostly California | $200/ 6 months | $200/year |
| **Private Investor Network**<br>Aiken, S.C. 803-648-6851 | South Carolina | $100/year | $200 |
| **Tennessee Venture Capital Network**<br>Murfreesboro, Tenn. 615-898-2745 | Tennessee | $100/ 6 months | None |
| **Texas Capital Network**<br>Austin 512-794-9398 | Texas | $100/ 6 months | $200/year |
| **Venture Capital Network at MIT**<br>Cambridge, Mass. 617-253-7163 | Mostly Northeast | $250/year | $250/year |
| **Venture Capital Network of Minnesota**<br>St. Paul, Minn. 612-223-8663 | Mostly Minnesota | $100/ 6 months | $100/ 6 months |
| **Washington Investment Network**<br>Seattle 206-464-6282 | Washington State | None | None |

*—Researched by Christopher Caggiano*

DEBT

## *Loan-Guarantee Options*

IF YOU'RE LOOKING FOR a new-business loan, don't be surprised when the banker leans across the desk and asks for a personal guarantee as one form of collateral. But before you sign your name or pledge personal assets, understand that all guarantees aren't alike—and that the exact wording is sometimes negotiable, though only at the time the loan agreement is signed. Here are some of the formats owner guarantees take:

- **Unlimited guarantee.** With an unlimited guarantee, the guarantor stands behind the entire loan or credit line. That means if the business defaults on, say a $500,000 loan pack-

*(Continued on page 168)*

*(DEBT, from page 166)*

age, you'll be expected to personally make good on any deficiencies. You're personally on the hook until the debt is paid. Bankers push for these guarantees in the belief that the more exposed you are, the more focused you'll be about meeting the loan's terms.

- **Limited guarantee.** A limited guarantee is less encompassing than a complete guarantee, making it more palatable to the borrower (and less secure to the lender). The requirements can be stiff, however. A limited guarantee usually works like this: The business gets a loan for, say, $500,000, but the bank agrees to limit the personal guarantee to $250,000. If the business can't meet loan payments, the bank, knowing it's not fully protected, will try to get part of the loan repaid by collecting receivables and selling assets. If, after the guarantor pays the $250,000, there's still a shortfall, the bank will take a hit, unless the agreement specifies other pieces of collateral.
- **Joint-and-several guarantee.** Say it's not just one person standing behind the $500,000 loan but two or more, all individuals of means. You'd think that the lender would be satisfied if each person guaranteed $250,000, but don't count on it. Many banks will try to set the loan up as "joint and several," which means they'll ask each of you to stand behind the full amount of the loan. You can try talking them out of it, but whether or not they back off will hinge on the quality of your other collateral and your overall financial strength.
- **Time guarantee.** Most guarantees are written to remain in effect until the loan is fully repaid. But some agreements spell out conditions under which personal guarantees can be eased or lifted. If, for example, the company has managed to meet specified performance standards for two or three years, the bank might relax its requirements or even tear up the guarantee altogether. Some but not all banks will commit to that in writing at the time the loan is made. **—*B. G. P.***

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# FINANCIAL STRATEGIES

*An earn-out agreement helped Klein's deal fly.*

### ACQUISITIONS

## Using Earn-out Agreements

DURING THE MID-1980S, WHEN BRAJDAS, A WOODLAND Hills, Calif., holding company, was negotiating to purchase Cypress Electronics, a distributor of electronic components, a typical quandary emerged: "There was a fairly significant difference between what the would-be acquirer believed Cypress was worth—based on its track record—and what the sellers believed it was worth—based on what they saw as its growth potential," recalls Allan Klein, Brajdas's chief financial officer.

But the deal didn't fall apart. Instead, the owners of Brajdas and Cypress created an-earn-out agreement that would reward two of Cypress's three original owners—on top of the sales price—if the company performed as well after the sale as they expected.

Generally, earn-outs are structured only in deals in which the original owners will stay with the company and thus can have some impact on future performance.

*(Continued on page 171)*

### INSURANCE

## Shopping for Carriers

HOW OFTEN SHOULD A company put its insurance business up for competitive bids? Shop around too frequently and you risk undermining your credibility as a prospective long-term customer; too seldom and you risk paying more for insurance coverage than you would if you'd just looked a little harder.

Ivor Bamberger, chief financial officer of Beber Silverstein & Partners Advertising, a Coral Gables, Fla., ad agency, keeps his policy costs under control without alienating insurance carriers, by going to market for insurance bids every three years. Working through an insurance broker, Bamberger solicits quotes from at least five carriers.

"Anything less might give us a distorted view of what the marketplace has to offer," he warns. "If you just take two or three bids, insurance brokers won't thoroughly scan the market for you—they will just bring you quotes from the carriers they do the most business with. Requiring five or more forces them to broaden the search." Using that technique as part of his insurance-management strategy, he has been able to keep his health-insurance costs from skyrocketing. Increases have been held to less than 12% a year.

Besides looking for competitive prices, Bamberger also requires brokers to evaluate the financial health of prospective carriers. "We want to make certain our bids come from well-established insurers who are going to be around to fulfill the terms of their contracts with us," he says.

—*J. A. F.*

### RESOURCE

## Document Basics

Many business documents seem largely incomprehensible to everyone except the lawyers who drew them up. But here's a good introduction to the rules and reasoning behind standard partnership and incorporation documents: *Organizational Documents: A Guide for Partnerships and Professional Corporations,* by Mark F. Murray. A lawyer with expertise in business accounting and corporate-law issues, Murray writes about business management for American Institute of Certified Public Accountants. Buy-sell agreements, employment contracts, and partnership agreements are among the documents discussed here in a no-nonsense, easily understood style.

Published by AICPA, this 124-page book costs $25. The book is also available on either WordPerfect or ASCII at $40 per disk. To order call AICPA at 800-334-6961.

—*J. A. F.*

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**ACQUISITIONS**
*Using earn-out agreements*

**INSURANCE**
*Shopping for carriers*

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*Document basics*

**BENEFITS**
*Building a successful 401(k)*

**WORKERS' COMP**
*A strategy for cost-cutting*

**Edited by**
**Jill Andresky Fraser**

PHOTOGRAPH: GARY MOSS

*(ACQUISITIONS, from page 169)*

Most earn-out clauses are tied to sales and earnings performance over a three-to-five-year period—generally the same time frame as any employment contracts negotiated with former management.

Earn-outs can be structured in any number of ways, depending on the priorities of sellers and buyers. But with Brajdas, which was interested in jump-starting Cypress into fast growth, Cypress's payout was pegged to revenue and profit growth over a three-year period, with additional rewards built in if the original owners achieved certain targets, which they did. "We wound up paying an additional $1 million on top of the $4-million purchase price," recalls Klein. "But we're not complaining. The earn-out agreement gave us peace of mind, because we knew we'd wind up paying the money only if the company's performance was good enough to warrant it."

•

A FEW CAVEATS FOR COMPANIES CONSIDERING ADDING EARN-OUT CLAUSES TO SALES AGREEMENTS:

### Keep financial formulas simple.

"I've seen some arrangements that are so complicated that they wind up backfiring because no one can figure out exactly what they're supposed to accomplish and how it will affect their payout," warns Robert Untracht, a partner at the Century City, Calif., office of Ernst & Young. Include in the design stages of the earn-out accountants, lawyers, and all executives involved.

### Avoid long-term-growth disincentives.

"You've got to make certain the earn-out and its resulting pressure for short-term results don't discourage former owners from doing things like spending money on research and development, diversifying, or investing corporate funds in other ways that will produce results only over the long term," warns Klein. Brajdas skirted that risk by guaranteeing Cypress's former owners that "new acquisitions or other long-term investments would be considered as separate from the earn-out agreement—so that they wouldn't reduce the risk of future payouts." You might also consider using an outside board or financial consultant to evaluate all management decisions to make certain that long-term goals remain important.

### Weigh the costs versus the rewards.

"Earn-outs may produce exactly the wrong kind of results for you, depending on the type of company you're purchasing and your own financial goals," warns Untracht. "If it's a fast-growing business, an acquiring company may want or need to plow all the cash back into growth—and may not actually care about short-term performance." In such cases, it makes better sense simply to negotiate a purchase price that satisfies all parties. *—J. A. F.*

BENEFITS

## *Building a Successful 401(k)*

FOR THE GROWING NUMBER of small companies starting 401(k)s, careful follow-up attention can be every bit as important as good plan design. That's because companies that fail to aggressively recruit and retain 401(k) participants may run afoul of IRS regulations against "top-heavy" executive-skewed plans—and thus, risk losing tax benefits for employees.

Here's how Aerodyne Controls, a Ronkonkoma, N.Y., manufacturer of aerospace products with 75 employees, has succeeded in attracting widespread participation for its 10-year-old 401(k) plan:

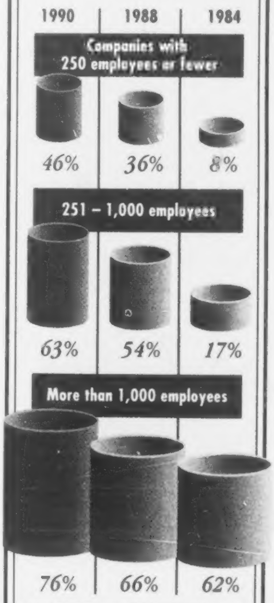
- **Personalized updates.** "We used to send participants a report once a year on how much their accounts contained and how much they were earning in interest, but then decided the information was so positive, we should circulate it every six months," explains Robert Tripodi, one of Aerodyne's owners. Participants are frequently surprised by how much their accounts contain, since the company matches 50% of each employee's income-tax-free contribution.
- **Extended vesting schedules.** Employees are encouraged to remain in the plan by a vesting schedule that kicks in slowly: they are vested 25% after three years, and 100% only after five years.
- **Follow-up interviews from top management.** When employees ask to pull out of the 401(k), Tripodi meets with them. "I tell them they're missing out on saving money on taxes and preparing for retirement," he says. "I show them the financial costs and benefits so clearly that they can see the benefits of perhaps *reducing* their contribution, but the great costs of withdrawing entirely." That coincides with Aerodyne's interests, since withdrawals, not contribution reductions, run the risk of causing IRS problems. *—J. A. F.*

▼ ▼ ▼ ▼ ▼

### *The Growth of 401(k) Plans*

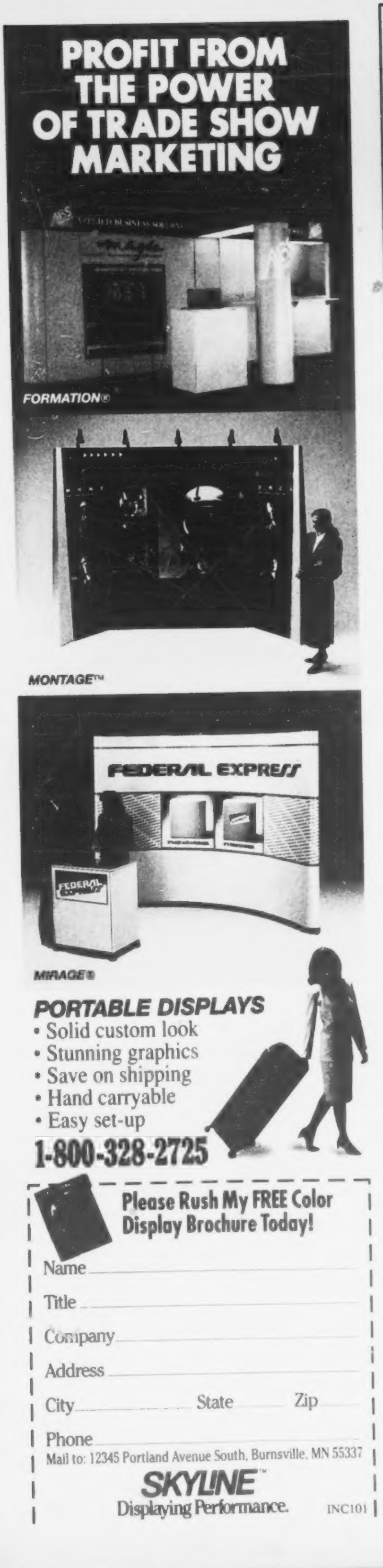
*Businesses with fewer than 250 employees now represent the fastest-growing market segment. Their biggest hassle? Record keeping.*

**Percentage of Companies That Had 401(k) Plans**



Source: Massachusetts Mutual Life Insurance Co., Springfield, Mass., 1991.

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK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WORKERS' COMP

## *A Strategy for Cost-cutting*

WORKERS' COMPENSATION costs can be a heavy burden for any manufacturing company. At Preferred, a $7.7-million industrial roofing and painting contractor based in Fort Wayne, Ind., they've become of astronomical importance. At $300,000 yearly, workers' comp fees amount to nearly one-sixth of the company's total $1.9-million operating budget.

For CEO Craig Hartman, controlling workers' comp costs is a management priority. One of Preferred's most effective cost-control strategies to date: self-insuring, through which the company pays all claims of $250 or less.

Since in Indiana, state-mandated workers' comp fees are pegged to the *number* as well as the size of claims, simply decreasing filing frequency should cut Preferred's annual fees by about 10%, chief financial officer Lisa Roberts estimates—a savings far outweighing the expense of paying minor bills. Of course, there's plenty of room for maneuvering: the $250 cap can be raised or lowered at any point if Roberts and Hartman feel it's either too costly or too low to reduce filings.

With an expensive history of fraudulent claims by some employees, Preferred has also put law firms on retainer in Cleveland, where the company operates one of its contracting facilities, to investigate and possibly litigate every significant workers' comp claim of a suspicious nature.

The company has also begun to investigate the medical and employment backgrounds of potential hires, to screen out fraudulent claims before they happen. "Now that we're taking an aggressive stance," Hartman says, "we believe we'll eventually be able to reduce operating costs by 10% through our workers' comp savings alone."

*—J. A. F.*

# IN THE OFFICE

*OSHA's experts helped McCoy comply with safety regs.*

ENVIRONMENT

## *OSHA Can You See?*

MOST BUSINESSES KEEP GOVERNMENT AT A DISTANCE. But when the government increases its industrial-fine schedule sevenfold, as the federal Occupational Safety and Health Administration recently did, that detachment is worth rethinking. Through outreach programs charged with helping employers comply with often complicated safety and environmental laws, companies can tap government experts for free on-site review of potentially hazardous conditions for which a company could be penalized. The procedure is administered either by state OSHA offices or by Labor Department affiliates. (Twenty-three states have their own industrial-health-and-safety agencies.)

"We ask them to review our programs and make recommendations," says Shawn McCoy, safety specialist at $73-million Sun Sportswear, in Kent, Wash. Sun recently called in an expert from its state office (WISHA) to teach management and employees about its new accident-reporting process. "They help you comply without fining you," says McCoy.

Invited observers cannot themselves levy fines. If a serious violation is uncovered, the company is given plenty of time to correct the problem. *—Susan Greco*

WORKPLACE

## *Day Care for All Ages*

MAYBE STRIDE RITE can't spell right, but it sure does set the pace for community responsibility. The Cambridge, Mass., shoe manufacturer pioneered on-site day-care centers for youngsters, 20 years ago. This year business's first employer-supported day-care center to serve *oldsters* celebrated its first anniversary.

At a cost of some $800,000, Stride Rite recently gutted 8,500 square feet of corporate-office space and converted it into classrooms and activity areas containing both elder- and child-size furniture.

Workers with family members in day care contribute to the center on a sliding scale, which is pegged to household income. To bridge the gap, the Stride Rite Charitable Foundation contributes capital to the operating budget, and the company itself supplies in-kind support such as bookkeeping and administrative and legal services. Liability insurance is tacked onto the corporation's own policy.

"Worker loyalty to the company is tremendous," asserts director of Stride Rite Work/Family Programs Karen Leibold, who sees ranks of siblings from the same families in attendance year after year, indicating that a large number of employees are staying on the job.

On-site day care is no longer the province of larger corporations, Leibold believes; even companies with few employees can establish a center, tapping intergenerational neighbors to fill it. Indeed, Stride Rite's own facility is only half filled by employee kin; the remainder—young and old—come from the community at large.

Stride Rite Work/Family Programs offers an informational packet on the subject. Call 617-491-8800, extension 7626. ***—R. A. M.***

RESOURCE

## *How to Tap OSHA for Free*

OSHA's Washington, D.C., office does not handle requests for free consultation (see "Environment," above). Arrangements must be made regionally, where the site in question is located. To determine the appropriate regional agency, call the OSHA office listed in the federal pages of your local phone book. Also available: *OSHA Handbook for Small Business* (202-523-7266), which lists free OSHA-sponsored consultants. *—S. G.*

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**Edited by Robert A. Mamis**

PHOTOGRAPH KIETH BROFSKY

OFFICE SERVICES

## *Specialty Delivery*

WHEN SEQUENT COMPUTER Systems, a manufacturer in Beaverton, Ore., needs to get an item to a California customer the next day, it often entrusts the job to little Jet Delivery Services, whose fleet roams the coast between Vancouver and San Jose. One reason, says traffic manager Randy Merrill: last year Sequent saved $180,000 by choosing a local trucker over a mammoth air freighter.

A few more reasons: Jet has air-cushioned vehicles and toting equipment to handle heavy but delicate high-tech stuff. Jet phones ahead to let customers know their shipments are about to arrive. Jet temporarily stores shipments customers aren't quite ready for. Jet picks up later than Fed Ex.

And, like most regionals, Jet boasts an on-time percentage in the high 90s, close to Fed Ex's. Then why don't companies like Sequent expand their use of local deliverers, tapping an informal network of ground couriers capable of relaying one another's goods around the country? For one thing, regionals tend to focus on metropolitan areas, to the exclusion of the outlands. For another, *Inc.* found, coordinating a number of carriers is bound to be complicated. The divergence of pricing schemes alone, not to mention weight strictures and territorial limitations, could throw a traffic manager into a tizzy.

Here's *Inc.*'s gathering of regional next-day services that theoretically could relay a package from Puget Sound to Tampa Bay.

| COMPANY | YEARS IN BUSINESS | NUMBER OF VEHICLES | LATEST PICKUP | FOR ARRIVAL BY | TRACKING METHOD |
|---|---|---|---|---|---|
| **Jet Delivery Services**<br>Portland, Ore.; 503-256-3621 | 15 | 69 | 6 p.m. | Portland to San Jose, 2:30 p.m. | Cellular phones; paper trail |
| • Started as a local courier delivering Fed Ex pieces in Portland area; in 1984, when Fed Ex decided to provide local service, Jet decided to specialize, offering just-in-time service. Weight restrictions exceed 150-pound cutoff of Fed Ex door-to-door service. Offers same-day and third-day services as well. **TERRITORY:** Vancouver to San Jose. **PRICING:** Factor of distance, size, contents. Average overnight letter to Seattle: $28; to San Francisco: $42. **MOST MEMORABLE DELIVERY:** Glen Campbell's band instruments. | | | | | |
| **Now Courier**<br>Los Angeles; 213-252-5000;<br>213-671-1200 (for overnight service) | 15 | 400 | 24 hrs./7 days | 9 a.m. | Computerized; paper trail; radio communication |
| • Has arrangements with contiguous services that enable it to offer national and international service. **TERRITORY:** Sacramento to San Diego; east to Arizona. **PRICING:** By weight and distance; for example, an up-to-2-pound letter from San Francisco to L.A. is $18.50. **MOST MEMORABLE DELIVERY:** Commandeered a snowmobile to get through mountain pass when blizzard stalled truck. | | | | | |
| **United States Cargo & Courier**<br>Columbus, Ohio; 614-491-8608 | 19 | 500 | Varies by city | 10 a.m. or noon | Paper trail |
| • Started as flower deliverer; now general delivery, with emphasis on same-day and overnight service. Will pick up, deliver anytime of day or night. **TERRITORY:** Ohio, Pennsylvania; parts of Kentucky, Indiana, Michigan, and West Virginia. **PRICING:** By weight and distance. Average overnight letter: $8.35. **MOST MEMORABLE DELIVERY:** Racehorse urine for drug test. | | | | | |
| **L.E.D.F.O.O.T. Express**<br>Glens Falls, N.Y.; 518-798-8160 | 10 | 88 | 9 p.m. | 9 a.m. | Computerized |
| • Territory expanded via arrangement with Twilight Express, an overnight service out of New York City, with which L.E.D.F.O.O.T. makes a rendezvous daily, at 1 a.m. Provides volume customers with their own built-in lockboxes for unattended drop-off and pickup. **TERRITORY:** Upper New York State and New England, to Virginia. **PRICING:** $1 a pound, with a $9 minimum; volume discounts. **MOST MEMORABLE DELIVERY:** 500 pounds of soil from a man in Albany to his brother, in Buffalo—for gardening. | | | | | |
| **Eastern Connection**<br>Boston; 617-723-3200 | 9 | 200 | 10 p.m., but 4 a.m. in NYC | 9 a.m. | Paper trail; computerized |
| • Relay system of vehicles spiderwebs the Northeast. Weight limit: 150 pounds. **TERRITORY:** Covers area from Portland, Maine, to Albany, N.Y. **PRICING:** By number and size of packages and frequency of use. A Boston-to–New York City overnight-letter pouch costs about $11. (Fed Ex would run $15.50.) **MOST MEMORABLE DELIVERY:** Case of baked beans from mayor of Boston to mayor of New York City after Boston lost the '86 World Series. | | | | | |
| **Sonic Systems**<br>Tampa; 813-884-8900 | 15 | 70 | Usually 6 p.m. | 12 noon; earlier at premium | Computerized; radio communication |
| • More localized than most, hence makes a lot of same-day deliveries. Will do rush jobs around the clock. **TERRITORY:** Six-county area around Tampa/St. Petersburg. **PRICING:** Per mile, starting at $2.75 for up to 50 pounds. **MOST MEMORABLE DELIVERY:** Ongoing account to pick up human eyeballs from local funeral homes. | | | | | |

*—Researched by Susan Greco and Chris Caggiano*

OFFICE EQUIPMENT

## *Small Is Useful*

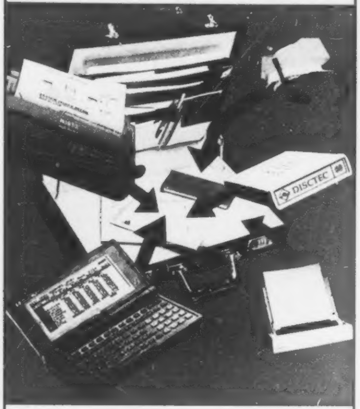
WHAT DO A 27-POUND radish and a Ricoh PF-1 have in common? Very little, except that each has been recognized by *The Guinness Book of Records.* The one that fits handily into a briefcase is cited as the world's smallest facsimile machine, and is thus a strong candidate for inclusion in a record *Inc.* itself herein attempts to compile: the world's tiniest desktop.

Ricoh's lilliputian fax measures 11 by 7 by 2 inches and weighs 5.5 pounds. It sends and receives conventional letter-size documents at standard rates and resolutions, and serves as a copier as well. When powered by battery and fitted with the appropriate interface, it can be coupled to a cellular phone or even a pay phone. Suggested retail: $1,695; Ricoh Corp., 800-637-4264.

Claim to the tiniest DOS-compatible PC on the market was made this past spring by Hewlett-Packard with the introduction of its 6.25-by-3.5-by-1-inch HP 95LX palmtop. The 11-ounce machine uses an 80C88-type processor and runs Lotus 1-2-3 and other built-in business applications. Suggested retail: $699; Hewlett-Packard, 800-443-1254.

Computers can't get much smaller, since the fingers that type on them aren't likely to shrink. On the other hand—or head, in this case—full functionality and minuscule footprint come together in the CompCap, an 8088-microprocessor computer worn on a hat and activated by voice. By midget mirrors,

### IN THE OFFICE



the computer's "monitor" is seemingly projected a foot or two in front of the user, who views it through a pair of special glasses. Since nothing physically touches a surface (the device is designed for hands-free use in manufacturing, construction, medicine, and the like), the computer takes up no space at all. Suggested retail: $3,995; Park Engineering Associates, 509-487-6462.

For a high-output, letter-quality printer, we go with the Mannesmann Tally MT735 at 11 by 9 by 2.5 inches—small enough to snuggle into a briefcase alongside our chosen fax. The 8.3-pound thermal-transfer machine produces six text pages a minute at a respectable 300 dots per inch, and is powered by a rechargeable built-in battery. Suggested retail: $1,295; Mannesmann Tally, 800-843-1347.

The entire workings of our nightstand-size office can be stored on the Disctec RHD 60, a 3.2-by-5-by-.81-inch hard-disk drive that has an ample 60 megabytes of capacity. The IBM-compatible 7-ounce drive is removable; therefore it, too, can be thrown (carefully) into our briefcase. Suggested retail: $895; Disk Technologies, 800-553-0337.

There you have our record-setting basic collection. Granted, serious contenders do exist, but as far as function as a factor of size goes, we'll stand by a computer, a hard disk, a printer, and a fax/copier that occupy a scant one and a half square feet. Plus, of course, a size 7½ cap. *—R. A. M.*

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# THE INC. NETWORK

## NEW QUERIES

**Where do you draw the line on employee benefits? When do they threaten your company's health? For one reader, those persistent questions have reached a flash point, so he's inviting Networkers to discuss the issue. Other letters concern restaurant marketing, finding suppliers, and managing from a distance. And in Resources: if advertising hasn't worked (or costs too much), can you live by word of mouth alone?**

### DOING GOOD, DOING WELL

The greatest challenges facing our company right now are providing adequate medical coverage for our employees and proper facilities for the handicapped, and developing a suitable parental-leave policy. We work hard to consider what is morally right in all our business decisions, but the economic impact of these issues concerns us. How have others in business dealt with this?

Bobby Frost
CEO
Consolidated Glass & Mirror
Galax, Va.

### MENU SELECTIONS

My wife and I are planning to move to northwest Wyoming and buy a restaurant there. The town we're looking at, Cody, has a population of about 8,000, off-season. From late April to August more than 750,000 tourists visit the area. Our attorney in Cody tells us there isn't a really good restaurant in town. I trained under European chefs years ago, and I've managed restaurants, so perhaps we can make a difference.

My wife and I don't have any advertising training. We'll probably start simple—flyers, radio ads, T-shirts—but how do we determine what potential patrons want?

Robert S. Haskell
Fayetteville, N.C.

### A DRACHMA FOR YOUR THOUGHTS

I would like to develop a catalog of Greek artifacts. I do not want to stock all the items but would like to advertise manufacturers' products in my catalogs and drop-ship my orders. How do I find manufacturers that will work with me, and how should I structure deals with them?

Lois E. Primas
Canterbury Collections
Detroit

### FROM A DISTANCE

Seven years ago my husband and I started a successful window-cleaning business in Newport Beach, Calif. When we divorced, he got the business and I moved three hours away to Santa Barbara, where I started my own cleaning service. My business is doing well, and I'm thinking about starting another company back in Newport Beach. I still have my old contacts, plus a little money and a desire for revenge. I don't want to move back, though. How difficult will it be to start a new business without being there?

Michelle Arconti
Owner
Santa Barbara Cleaning
Santa Barbara, Calif.

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### BIDDING FRENZY

**Jim Mouyassar, president of Two Nice Guys Environmental Services, wants to start bidding on government contracts but doesn't know where to begin (Pesty Problem, July).**

Mr. Mouyassar can subscribe to a publication for information on federal procurement possibilities: *Commerce Business Daily* (202-783-3238). It is fairly expensive, and he may find the same information, as well as information on state and local bids, for free at his local Small Business Development office.

Anne Lowery
Assistant Professor of Marketing
Mobile College
Mobile, Ala.

Trade organizations can help Mr. Mouyassar. He should contact the Associated Landscape Contractors of America, in Falls Church, Va. (703-241-4004), and the Professional Lawn Care Association of America, in Marietta, Ga. (404-977-5222).

Russell Adsit
General Manager
Adsit Landscape & Design
Memphis

One answer is to contact the state economic-development department, which runs a bidding list and may have a bidder-procurement system. Mr. Mouyassar should also contact state and local procurement agencies. In some states the parks division and the housing division, for example, buy separately. The key is to get on their bid lists. Also, the legal section of the newspaper may publish bids from various agencies, with instructions on how to apply for the bids.

Glen Morgan
Director
Business & Industry Support Center
Seminole Community College
Sanford, Fla.

In California there's a state contractors' guide to purchasing, available through the General Services Commission; other states have similar guides. For federal jobs, contact the General Services Administration, in Washington, D.C. (202-708-5804). Let them know what your services are and they will send you a booklet telling you what category you fall into and how to bid on projects. Be prepared to do a lot of paperwork and to wait for your money—you generally don't get up-front costs.

Gary Pietruszka
President
Woodworking by Degree
Los Angeles

### CREDIT CHECK

**In her old hometown, Mary H. Koppel knew her customers and could judge their creditworthiness. Now that she's relocated, she needs credit checks on**

## THE INC. NETWORK

**one or two new clients each month, but she can't justify the expensive subscription fee most services charge (Getting to Know You, July).**

Ms. Koppel could find a regional credit bureau that will perform searches without charging a membership fee. Many bureaus offer the services she's looking for and charge on a per-report basis only.

Paul Jenney Jr.
Vice-President
Info Center Credit Bureau
Feeding Hills, Mass.

A database called NewsNet allows subscribers to access TRW credit reports for $36 a report, plus $1.40 for each minute on-line. A subscription costs $15 a month. It is located in Bryn Manor, Pa., at 800-345-1301.

Oliver C. Muoto
President
VettiCorp
Los Angeles

### HOME-GROWN

**Louis Lorenz is looking for someone to take over the family business, someone who will respect the traditions he's built there over 80 years. Back in May he asked Network where he could find the right buyer (We Are Family).**

Perhaps Mr. Lorenz is looking too far afield for prospective buyers. If he wants someone who will nurture his business, why not look within? An employee buyout could be his answer. Banks and SBA offices can assist in structuring such a deal. Mr. Lorenz could get a good price for the business, and he could keep his knowledgeable employees and provide them with new incentives to grow the business. He could stay involved as a consultant, too. It's almost like "keeping it in the family."

Charles H. Scruggs Jr.
Program Director
Elsin Corp.
Hanover, Md.

*Please send your words of advice to The* **Inc.** *Network, 38 Commercial Wharf, Boston, MA 02110, or call our reader response line,* **800-444-1756.** *Or fax your letters to* **617-248-8090.** *We'll publish the best responses and queries.*

## RESOURCES

### ZEN AND THE ART OF ADVERTISING

I run a martial-arts school. I have tried all the traditional types of advertising—TV, radio, newspapers—and the only thing that works for me is word of mouth. Is there any way to maximize its effect?

Kevin Castelle
Owner
Hopkins Martial Arts Institute
Hopkins, Minn.

Charles Hillestad, co-owner of Queen Anne Inn, in Denver, knows the feeling. "We tried advertising and it flat out didn't work." He's found better uses for his money: generating news stories instead of ads, and turning the customers he already has into walking advertisements.

Hillestad has gotten 157 publications, TV stations, and radio stations to praise Queen Anne Inn in some way, and he's done it on his own. Yet advertising and public-relations pros we spoke to said company owners would be crazy to try PR without professional help. Hillestad disagrees. "If you've decided marketing is important and you're willing to do it, ideas will continually present themselves to you."

When Hillestad spotted a movie crew in Denver one day, he found the location assistant and told her to look him up if she needed a Victorian backdrop. When she took him up on it, Hillestad sent out a press release to the local media. He thinks it's important to devote at least one hour a day to such work. Some of that is spent at the library, where he researches publications in standard references that index by subject—the *Gale Directory of Publications and Broadcast Media* and *Bacon's Publicity Checker* are two. He doesn't look just for travel magazines; instead, he looks for an angle. "We've been in business publications, like *Inc.* ['Rooms with a View,' May 1988], health magazines for our nonsmoking policies, art books because we did some trompe l'oeil." Recently, a college business textbook featured Queen Anne as an example of effective marketing. So far, five people who have used the textbook have booked rooms.

Hillestad's loyal customers also work hard to promote Queen Anne. Such loyalty comes from making their stay memorable. For instance, "The Queen Anne University" awards a tongue-in-cheek "master of romance" to guests who stay in 8 of the 10 rooms at the inn. "Guests remember it," but, Hillestad says, in addition "you can improve your odds by reminding them that you could use their referral, and thanking them for it."

In our April 1991 feature on Intuit, the makers of the briskly selling software Quicken ("Customer Service: The Last Word"), president Scott Cook explained his marketing success: "We have hundreds of thousands of salespeople. They're our customers." He keeps them selling by providing "legendary" customer service in an industry where that's rare. Every company has "an opportunity to amaze the customer on the first impression," he insists. Intuit does that by making its software incredibly easy to install.

Cook recommends you use a similar approach. "When I was younger, I was intrigued by martial arts, but I didn't sign up, because I didn't want the embarrassment of losing interest after a lesson." You could set your academy apart by setting up a get-acquainted program that people can attend without making a commitment. Then, Cook says, "take advantage of the first lesson, when the customer is feeling most ill at ease, and turn that into a wonderful experience. Give each new customer special attention, and call afterward to ask how it went."

Such special attention has paid off for Intuit. "We're so much better than what they expect that it takes customers by surprise," Cook boasts. "When you do that, you give them something to tell their friends about."

*—Michael P. Cronin*

# THE AMERICAN DREAM

## BUSINESS FOR SALE

## MAINE MODEL-SHIP MAKER

**THE BUSINESS** Toys for grown-ups: premium wooden-model kits for museum-quality, historically accurate replicas of tall sailing ships, Civil War ironclads, and more. Kits retailing from $25 to $350 are manufactured in a 150-year-old schoolhouse in coastal Maine; direct mail (40-page color catalog) generates 65% of revenues. Company employs six unskilled laborers full-time; role of current owner (who's selling in order to attend to two other businesses) has been primarily financial.

**FINANCIAL SUMMARY**

| | 1990* | 1991* | 1992** |
|---|---|---|---|
| Gross revenues | $222,000 | $269,000 | $282,000 |
| Net profit before taxes, depreciation, and owner compensation | $47,000 | $55,000 | $74,000 |

* fiscal year ending June 30 ** projected

**PRICE** $365,000

**OUTLOOK** Exact figures don't exist for this segment of the model industry, but insiders estimate its size to be a stable $4 million to $5 million, putting this company's market share as high as 7%. Chalk it up to experience: this is the oldest model company in the United States, and it's renowned for quality (40 of its models are in the Smithsonian). Still, pleasure, not profit, has traditionally been the motive for owning companies like this one.

**PRICE RATIONALE** Price includes $125,000 worth of inventory and accounts receivable, and $150,000 worth of proprietary molds and patterns that create a barrier to entry in this mini-industry. The price is aggressive: the seller wants $125,000 down, and the debt remaining on a five-times-earnings sale price would be tough to service. Experts say a multiple of three would be more reasonable.

**PROS** Established reputation, timeless product line, and competent manufacturing operation would enable new owner to concentrate on marketing (and a retail showroom?). Plus, the toys are nice.

**CONS** "Stable" might mean "stagnant." Unlike their lower-priced, little- or no-assembly-required plastic and radio-controlled relations, these precious frigates aren't likely to see growing demand. —*Alessandra Bianchi*

***Inc.* has no stake in the sale of the business featured.**

*The magazine cannot confirm the accuracy of financial or other information offered by the seller. Inquiries should be directed to Donald Giancola, Country Business Inc., 207-773-1745.*

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